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Laid before the Scottish Parliament by the Scottish Ministers under Section 22(5) of the Public Finance and Accountability (Scotland) Act 2000.

SG/2019/:161



1.1 Statement by Chief Executive on performance in the period

Penelope Cooper
Chief Executive Officer

It is with great pleasure that I write this introduction to our Annual Report and Accounts.

As an executive agency of Scottish Government, SPPA remains accountable to Scottish Ministers and I am privileged to lead a team of knowledgeable and committed people who are proud to serve over half a million customers with pensions within a variety of the public sector workforce in Scotland.

The last year has seen the Agency make considerable progress towards our vision that “We shall provide excellent customer service, combining skills and technology to maximise efficiency and deliver best value to taxpayers in Scotland.”

2018-19 saw significant change as we continued to put our customers’ needs at the heart of our business planning and service delivery and our staff have engaged with this process. There have also been challenges. Some of these were technical such as the outcome of the Quadrennial Scheme Actuarial Valuations, some of them operational such as obtaining annual employee information on time. We also had a system replacement project that was not delivering as expected. We responded to this appropriately, have learned from this and we are now delivering an improved system that is already providing benefits.

Despite these challenges, there are many achievements of which we can be proud:

- Developing a 5-year rolling strategic plan for the Agency
- Approving the new Target Operating Model and implementing this for Policy, Finance and Customer Services departments
- Achieving accredited Scottish Government Cyber Catalyst status
- Issuing 96% of Annual Benefit Statements (ABSs) on time
- Introducing customer personae and panels to support the refresh of the web site
- Training all staff in Change Management, with 46 achieving qualified Change Manager status
- Exemplary implementation of the General Data Protection Regulation (GDPR)
- Implementing improvements to the Administration system
- Sports & Social Committee’s excellent events in fundraising for local charities
- Recruiting new talent to the Management Advisory Board, and independent Pension Board Chairs and Vice Chairs to ensure strong continuity.

Looking forward, 2019-20 will be a further year of transformation for SPPA as we continue to implement the target operating model for the rest of the organisation, develop our people and improve our systems and processes for the benefit of those customers that we serve.

The Agency has a clear direction, a strong strategic plan for the next five years, and I am confident that we will be able to continue to deliver this successfully.

Penelope Cooper
Chief Executive Officer

1.2 Statement of purpose and activities of the Agency

1.2.1 History and statutory background

The Scottish Public Pensions Agency (SPPA) was launched on 1 April 1993 as part of the Government's Next Steps Initiative. The Agency was known as The Scottish Office Pensions Agency before changing its name after the establishment of the Scottish Parliament on 1 July 1999. The Agency is headed by a Chief Executive who is directly accountable to the Scottish Ministers. It operates out of freehold premises based at 7 Tweedside Park, Tweedbank, Scottish Borders. It moved to its present location in 2002 and employs circa 300 staff.

1.2.2 Agency's roles

SPPA is a national centre of expertise for the administration of, and provision of policy advice on, public service pensions in Scotland. Currently, SPPA administers the Pension Schemes for the NHS, Teachers, Police, Fire and a range of smaller schemes.

The principal roles of SPPA are:

- to administer, on behalf of the Scottish Ministers, the public service pension, premature retirement compensation and injury benefit schemes for which the Scottish Ministers have administrative responsibility so as to provide an efficient and effective service for those who use the schemes, at an economic cost to the public purse
- to prepare in accordance with government policy the regulations governing these and other schemes for which the Scottish Ministers have regulatory responsibility
- to determine questions under the regulations on which there is a right of appeal to the Scottish Ministers
- to follow regulatory guidance and codes of practice issued by The UK Pensions Regulator in observance of its powers under the Pension Act 2004
- to advise the Scottish Ministers on public sector pensions policy generally
- to be a national centre of expertise for the administration of public pensions and the provision of policy advice.

1.2.3 The Agency's Vision

"We shall provide excellent customer service, combining skills and technology to maximise efficiency and deliver best value to taxpayers in Scotland."

1.2.4 Mission and Strategic Aims

To achieve its Vision, SPPA's mission is to put customers' needs at the heart of its business planning and service delivery. Hence, SPPA's strategic aims are:

- Customer first – be focussed on our customers' journey at all times
- Service delivery – deliver best in class customer standards
- Operational excellence – deliver digital era business solutions to enhance the customer experience
- Developing our people – make SPPA the pension provider employer of choice trained in delivering what the customer needs.

The expression of the strategic aims above, in terms of business drivers and key tasks, is to be found in the Agency's rolling Strategic Plan. This will also include the scope and scale of the planned tasks which will, as far as practicable, reflect the known funding position at the date of publication.

1.2.5 Objectives

SPPA's objectives are an articulation of its strategic aims set in the context of the 5-year rolling planning period. Annual staff objectives and performance management are based around the tasks to achieve the Agency's objectives, which are articulated in the Annual Business Plan.

1.2.6 Values

Staff in SPPA seek, at all times, to uphold the core values of the Civil Service Code. By following the Code, staff will look at all times to apply an ethical approach to their work. This may involve identifying possible threats to core values and either avoiding possible conflicts or resolving existing conflicts in both a professional and ethical manner and in the context of observing the public interest.

1.2.7 Agency's stakeholders

The Agency focusses its efforts on delivering excellence in customer service. As a delivery arm of Scottish Government responsible for pension administration, its customers include scheme pensioners, current and deferred members and employing organisations in the public sector schemes for which responsibility rests with the Agency. Other parts of Scottish Government and Ministers regularly receive other services including business as usual policy input and specially commissioned projects. The Agency also demonstrates a commitment to staff through its People Strategy and policies and to suppliers through a commitment to best procurement practice.

The Agency is aware of, and acts upon, the principles of Corporate Social Responsibility both in its dealings with its neighbours and to the environment. The manner in which the principles are applied are recorded in more detail in the Accountability Report.

1.2.8 Performance

The Agency's Framework Agreement Document was completely refreshed and received the approval of the Cabinet Secretary for Finance and the Constitution on 12 December 2018. The document can be accessed at <http://www.sppa.gov.uk/Documents/Governance/SPPA%20Framework%20Document%20V2.pdf>

The Agency's Outcomes are agreed by the Scottish Ministers as part of the corporate planning approval process. The current 5-year rolling Strategic Plan covers the period 2018-19 to 2022-23. Key tasks and key performance indicators are set out annually in the Agency Business Plan and describe in more detail how the Agency's aims and objectives will be met. Key tasks and the key performance indicators used to support the Agency's Outcomes are monitored on a regular basis by the Strategic Leadership Team and Management Advisory Board. Performance against targets for the year is set out in this Annual Report.

1.3 Key risks and issues

1.3.1 Risks and uncertainties

The key risks and uncertainties facing the Agency are contained within the Corporate and Pension Board Risk Registers. These are informed by a number of sources including from project, fraud and directorate risk registers. The Corporate and Pension Board Registers are regularly reviewed and updated by the Agency's Risk Governance Group comprised of senior managers and specialist post holders within the Agency. The Group takes responsibility for preparing the Agency and Pension Board Risk Registers and seeking input from the Strategic Leadership Team (SLT) prior to sharing with the Audit and Risk Committee and Pension Boards.

The risk universe is examined in a number of forums. Each meeting of the Audit and Risk Committee examines risk management as an agenda item and carries out 'horizon scanning' and 'deep dive' exercises. The exercises help ensure that the Committee look above and below 'the parapet' when examining sources of risk and the application of relevant internal controls. In March 2019 members of the Management Advisory Board spent a day devoted to strategic planning incorporating a 'PESTLE' type risk based approach (political, economic, social, technological, legal and environmental). The principal threats and opportunities facing the organisation at an operating level are considered more widely on a day-to-day basis and these are brought to meetings of the Risk Governance Group.

Changes to the risk universe draw upon a wide pool of new information, but may relate to areas where the Agency has no direct control, such as UK legislation on reserved matters, which can present a number of changes to both threats and opportunities. Key risks more often relate to corporate objectives where the inherent risks are of such magnitude, such as the Agency's ambitious change programme, that they warrant inclusion and an analysis of the controls, which can be introduced to mitigate the risk.

Risks may be identified as part of the operational activities of each directorate, such as relationships with key suppliers, which again, may be of such magnitude that they should feature in the Register. The cause and effect of each threat and opportunity is identified and the mitigating internal controls are considered alongside any further practicable actions. If mitigating controls and further actions are sufficient to reduce the risk assessment below the risk tolerance, the risk will be removed from the Register.

The Corporate Risk Register was dominated by three key risk areas which were monitored and reported upon during the year. Risks in relation to source and application of funding, legal and regulatory compliance, and organisational change are referenced below:

Since the closure of the PS Pension Project in February 2018, the foremost risk to the Agency is in relation to the need to 'obtain a sustainable funding stream sufficient to meet recurring expenditure and service investment needs'. The cost of continuing to provide pension services under a range of renegotiated legacy contracts has put the Agency budget under greater cost pressures. Going forward, the Agency is taking action to introduce a range of business efficiencies which are made reference to at section 1.5.14 but continues to face a shortfall in resource and capital funding in the period from 2019-20 to 2023-24. The full extent of the shortfall thereafter will not be known until the re-procurement of the pension and payroll platform is completed in 2020-21.

The successful delivery of Annual Benefit Statements, for four pension schemes to time and quality required, remained a key risk to the Agency. Performance against this risk is commented upon later in this Report, as is the need to successfully deliver the Target Operating Model (TOM) and Guaranteed Minimum Pensions (GMP) with minimal disruption to core business.

1.3.2 Key issues

The Agency is aware that there are also a number of key issues to be addressed. The strategic planning day, which took place in March 2019, also used 'SWOT' analysis (strengths, weaknesses, opportunities and threats) to consider issues to take forward and address in the rolling Strategic Plan. Among the challenges facing the Agency include:

Agency

To seek new ways to add value to the customers' experience. Capturing the customer experience and engaging across the complete range of customer 'personas' is an essential pre-requisite for the Agency's mission to succeed.

'Put customers' needs at the heart of all we do'

Policy

To put the policy function in the best position possible to address future changes in the pension policy landscape and meet stakeholders' expectations.

Finance

To take every opportunity to obtain a sustainable funding stream sufficient to meet the recurring expenditure and service investment needs.

Customer Services

To make further improvements to the quality of membership data, in order to underpin the accuracy of pension scheme valuations and the Agency's change programme and to provide a sound basis for more 'value added' customer services.

Change Programme

To get closer to the customer and better understand the scope and scale of their expectations for the future and for digital services, in particular. To seek to embrace future innovation through a 'digital first' approach but with due regard to the diversity of our customer base and the ever present threat of cyber-attack.

Human Resources

In adherence with the employment legislation, Agency's People Strategy, SG public sector pay remit and personnel policy, to help the Agency ensure that the right people, with the right knowledge, skills and experience and behaviours are in the right place at the right time.

IT

In accordance with the Agency's vision to 'combine skills and technology to maximise efficiency and deliver best value to taxpayers in Scotland'. Effort needs to go into ensuring that the IT strategy remains aligned to the Agency's strategic objectives, its people, processes and products and the need to maintain sound internal controls.

Governance

To ensure appropriate levels of scrutiny are adopted and applied, commensurate with the needs of the business. To also optimise the governance arrangements already in place, in order to assist the work of the Accountable Officer.

1.4 Performance Summary

1.4.1 Performance against Scottish Government's National Performance Framework

As an Executive Agency of the Scottish Government, the SPPA's strategic aims look to support Scotland's Economic Strategy 2015 to develop a 'One Scotland' approach based on its four priorities: investing, innovation, inclusive growth and internationalisation. Furthermore, the Scottish Government's 2020 Vision requires the public services to be more open, capable and responsive. SPPA supports the Scottish Government's Vision through the framing of its objectives included in its annual business plan and through its ambitious change programme.

Since the Scottish Government launched its latest version of its National Performance Framework in June 2018, the Agency has been mapping its strategic objectives to the Framework's 11 national outcomes and 81 key indicators. The Agency will continue to ensure that the national outcomes are embedded and explicitly mapped into the strategy and business plans. The Agency contributes across a range of activities to the National Performance Framework's target outcomes and where practicable will look to measure and report upon outcomes guided by the national approach. Given that some of the national measures remain 'to be confirmed' or 'in development' the Agency will look to contribute to their approach and design. In relation to the key Framework headings, some examples of SPPA's contribution are provided below.

The Economy

- In implementing a new target operating model, there is a focus on maximising the productivity and efficiency of business processes and ultimately improving the customer experience.
- In making pension and personal injury benefit payments to public sector pensioners a contribution is made towards ameliorating income inequalities.

Poverty

- Making annual index-linked pension payments to public sector pensioners assists in mitigating wealth inequalities.
- The Agency strives to make a broad range of payments such as premature retirement compensation and personal injury benefit as timely as possible in accordance with the scheme regulations

Communities

- The Agency seeks to create diverse social networks in the Scottish Borders and leveraging its new relationships where there is common cause to increase the area's social capital.
- Opportunities are seized upon to deliver upon the Agency's 'Social Impact Pledge' by opening the estate up for community events.

Education

- Working alongside Borders College, there are joint working initiatives in place, which included the provision of SQA level 1-4 Professional Development Awards, recognising accomplishment in the workplace.
- By providing placements and job shadowing opportunities to staff and pupils in local schools there is a greater appreciation of how educational skills can be applied in the workplace and how the Agency makes a contribution to the employment opportunities in the Scottish Borders.

International

- SPPA looks after the pension interests of retirees living across the world.
- SPPA has built procurement partnerships with global suppliers and formed alliances with other pension providers and through participating in an established international benchmarking group.

Health

- Mental Health Awareness week from the 14-20 May 2018 provided the Agency with the opportunity to promote mental health wellbeing to staff through a number of organised events. Mental Health Awareness Sessions continued throughout the year in which 176 people attended the three hour sessions. Trained mental health 'first aiders' are also present on site.
- Physical health is promoted through use of facilities for yoga, running groups, badminton and offering annual flu jabs on site. The degree of commitment is recognised through the Investors in People 'Health and Wellbeing' award which focusses on physical, social and psychological wellbeing. The Agency continues to hold the NHS 'Healthy Working Lives' gold award.

Environment

- Built in 2002, the Agency boasts an environmentally-friendly building for its age. As remedial work is carried out, employing more exacting carbon neutral standards will be investigated in order to achieve the level found in more modern state-of-the-art Building Research Establishment Environmental Assessment Method 'BREEAM' constructed buildings.
- Testing and upgrading work has been carried out on the estate to reduce wasted water and unnecessary energy demands such as from excessive lighting and also to investigate cost effective new heating systems.

Fair work and business

- As a delivery body of the Scottish Government, the Agency is geared towards providing 'excellent customer service, combining skills and technology to maximise efficiency and deliver best value to taxpayers in Scotland'. Elements of improvement in service delivery and innovation of the service offering is considered as part of all-staff business planning sessions.
- The Agency upholds the civil service human resource values and policies and has been successful in delivering the Scottish Government's commitment to gender balance of non-executive members.

Human rights

- The Agency's and the Scottish Government's commitment to human rights is long-standing. Over the year the Agency has provided customer service training taking into account the diverse customer base of over half a million members.
- The development of a new internet website and the need to treat all prospective users with dignity and respect was incorporated into the project specification. By considering the needs of people with disabilities and employing the services of suppliers who are expert in the field, the quality of outward facing services has been enhanced for, as large a segment of the customer base, as possible.

1.4.2 Performance against the Agency's key business targets

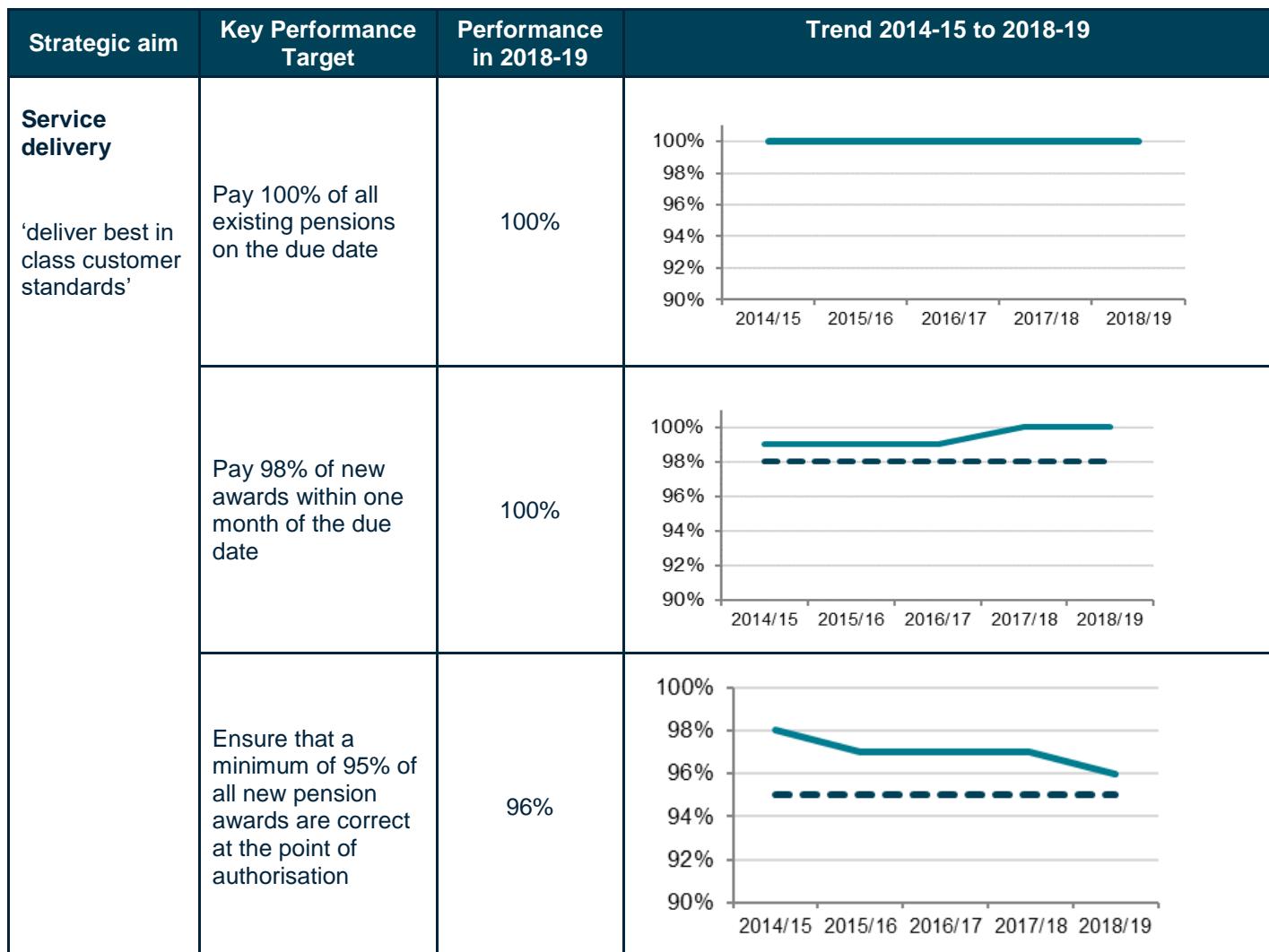
As is customary, the Agency reports against key performance indicators which are core to the Agency's performance as set out in the rolling Strategic Plan. In addition to the Agency's key performance indicators, each department supports another set of performance indicators, which are designed to maintain department service standards. Indicators are predominantly based upon levels of service previously agreed with customers, updated where appropriate, by new or revised standards incorporated into customer service level agreements.

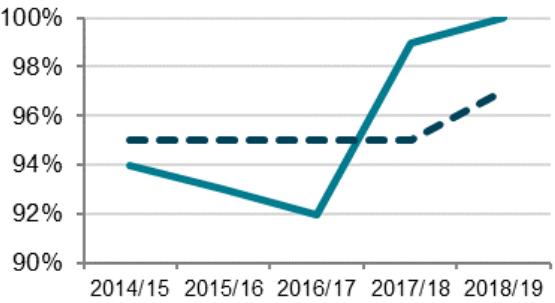
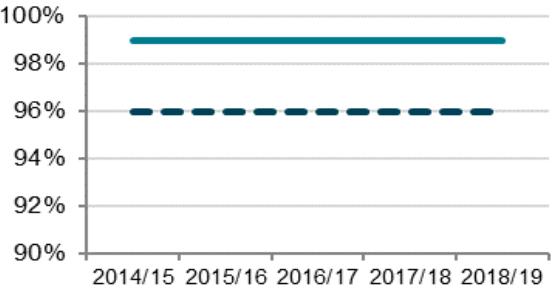
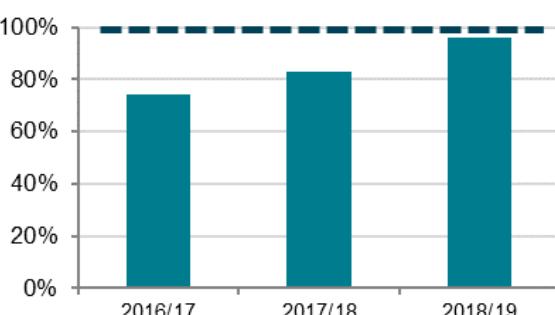
The Agency carries out a regular assurance mapping exercise, which is reported to the Audit and Risk Committee. Over the last six years, key performance targets have been directly linked to relevant key risks in the Risk Register and reported to the Audit and Risk Committee. Evidence is provided of actions taken to address risks affecting performance and to provide the necessary assurance to members. Assurance is provided through a variety of

internal means (e.g. consideration by governance bodies) and from a number of external sources (e.g. external independent reviews).

The key targets in Table 1 below describe performance against the four strategic aims in the SPPA's vision. These figures relate to NHS, Teachers', Fire-fighters and Police schemes combined.

Table 1: Performance against Agency Key Business Targets



Strategic aim	Key Performance Target	Performance in 2018-19	Trend 2014-15 to 2018-19																		
Operational excellence 'deliver digital era business solutions to enhance the customer experience'	Ensure that up-to-date and accurate data is held for a minimum of 97% (previously 95%) of active scheme members* 	100%	 <table border="1"> <caption>Data for Operational Excellence Trend</caption> <thead> <tr> <th>Year</th> <th>Actual Performance (%)</th> <th>Target (%)</th> </tr> </thead> <tbody> <tr> <td>2014/15</td> <td>94</td> <td>95</td> </tr> <tr> <td>2015/16</td> <td>94</td> <td>95</td> </tr> <tr> <td>2016/17</td> <td>92</td> <td>95</td> </tr> <tr> <td>2017/18</td> <td>100</td> <td>95</td> </tr> <tr> <td>2018/19</td> <td>100</td> <td>95</td> </tr> </tbody> </table>	Year	Actual Performance (%)	Target (%)	2014/15	94	95	2015/16	94	95	2016/17	92	95	2017/18	100	95	2018/19	100	95
Year	Actual Performance (%)	Target (%)																			
2014/15	94	95																			
2015/16	94	95																			
2016/17	92	95																			
2017/18	100	95																			
2018/19	100	95																			
Collect 96% of contributions by value within the period prescribed by legislation	99%	 <table border="1"> <caption>Data for Contributions Trend</caption> <thead> <tr> <th>Year</th> <th>Actual Performance (%)</th> <th>Target (%)</th> </tr> </thead> <tbody> <tr> <td>2014/15</td> <td>99</td> <td>96</td> </tr> <tr> <td>2015/16</td> <td>99</td> <td>96</td> </tr> <tr> <td>2016/17</td> <td>99</td> <td>96</td> </tr> <tr> <td>2017/18</td> <td>99</td> <td>96</td> </tr> <tr> <td>2018/19</td> <td>99</td> <td>96</td> </tr> </tbody> </table>	Year	Actual Performance (%)	Target (%)	2014/15	99	96	2015/16	99	96	2016/17	99	96	2017/18	99	96	2018/19	99	96	
Year	Actual Performance (%)	Target (%)																			
2014/15	99	96																			
2015/16	99	96																			
2016/17	99	96																			
2017/18	99	96																			
2018/19	99	96																			
Customer first be focussed on our customers' journey at all times'	Ensure that accurate annual benefit statements are available to 100% of active scheme members by 31 August 2018	96%	 <table border="1"> <caption>Data for Customer First Performance</caption> <thead> <tr> <th>Year</th> <th>Performance (%)</th> <th>Target (%)</th> </tr> </thead> <tbody> <tr> <td>2016/17</td> <td>75</td> <td>100</td> </tr> <tr> <td>2017/18</td> <td>82</td> <td>100</td> </tr> <tr> <td>2018/19</td> <td>98</td> <td>100</td> </tr> </tbody> </table>	Year	Performance (%)	Target (%)	2016/17	75	100	2017/18	82	100	2018/19	98	100						
Year	Performance (%)	Target (%)																			
2016/17	75	100																			
2017/18	82	100																			
2018/19	98	100																			

Strategic Aim	Key Performance target	Performance in 2018-19
Developing our people 'make SPPA the pension provider employer of choice trained in delivering what the customer needs'	Increase staff engagement, year-on-year.	The SPPA 'staff engagement index' in 2018 was 54, down by one point from 55 in 2017.

The Agency measures performance at various levels against a set of service standards. These cascade from the above set of Objective based Key Performance Indicators and provide a means of monitoring performance of particular functions within departments and smaller teams. Also among the benefits derived from following this approach is the ability to support the information requirements of statutory Pension Boards, and the provision of regular progress updates at Management Advisory Board meetings.

During the year, the Agency met 5 out of 7 of its key performance targets, shown in table 1 above. These covered: payment of all existing pensions on time; timeliness of new pension awards; accuracy of new pension awards; accuracy of scheme member data held; and, the collection of pension contributions within the period prescribed by legislation. The missed targets related to ensuring that accurate annual benefit statements were available to all active scheme members on time, and improving staff engagement.

In terms of the pension administration services provided by the Agency to the Scottish Parliamentary Pensions Scheme and the Scottish Legal Aid Board scheme, all service levels were met.

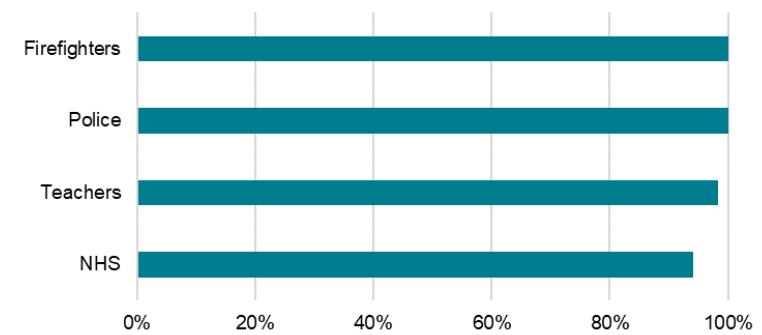
Scottish Government has a national target for the prompt payment of 100% of undisputed invoices within 10 working days of their receipt, which SPPA met during the year.

The two targets in table 1 above which the Agency failed to meet are described below.

Annual Benefit Statements were issued to 96% of active scheme members in 2018-19 by 31 August 2018. Whilst this does not meet the statutory obligation to meet the 100% target by 31 August, it represents an improvement from 83% in 2017-18 and 74% in 2016-17. The continuous improvement initiative, 'ABS Max', which began in 2017-18 and continued in 2018-19 (described at 1.5.4.) resulted in 100% of members of the Police and Firefighters schemes, 98% of members of the Teachers schemes and 94% of members of the NHS schemes receiving their annual statement on time. By 31 March 2019, the figures had risen to 100% for Teachers and 98% for NHS.

Chart 1

Percentage of active members issued Annual Statement by 31 August 2018, by scheme



A key performance target was introduced this year to measure year on year change in staff engagement which would support the 'Developing and Empowering our People' aim. The measure of staff engagement is derived from the Agency's annual staff survey. The engagement index, which can range from 0 to 100, represents the average level of engagement among staff, based on responses to a series of survey questions. A score of 0 represents all respondents responding that they 'strongly disagree' to all engagement questions, and a score of 100 represents all respondents strongly agreeing to all questions. The index is used across the Civil Service to monitor staff engagement. In the last year, the staff engagement score decreased by one point to 54. Further details on actions taken are provided in sections 2.3.20.

1.4.3 Customer analysis

Scheme membership

In the last four years, there has been a 13% increase in the number of members active in the schemes administered by the SPPA, and a 29% increase in the number of pensioners in those schemes, with 569,000 members in total either currently active, deferred or receiving a pension.

The SPPA paid more than 210,000 pensioners over 4 pension schemes to a value of £3.0 billion annually by carrying out 720 pay runs. As shown in table 1, 100% of payments were made on time.

Chart 2

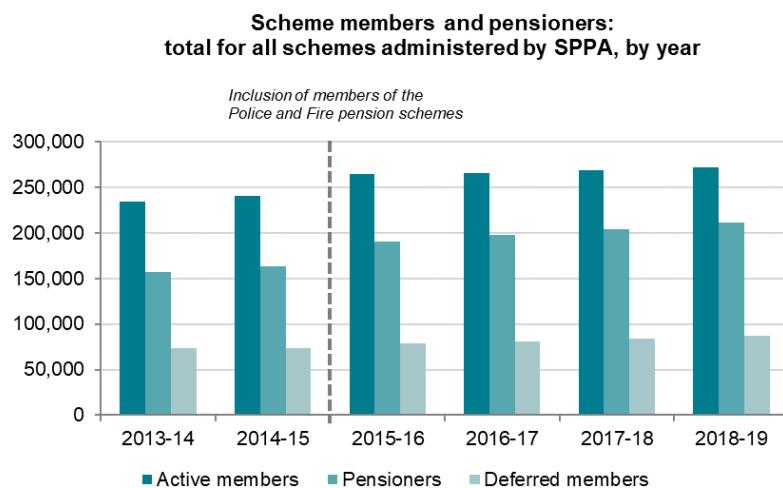
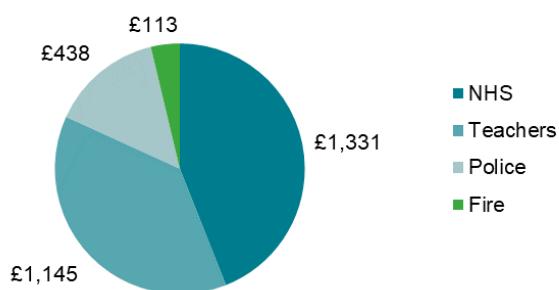


Chart 3

Pensions paid (millions), by scheme, 2018-19

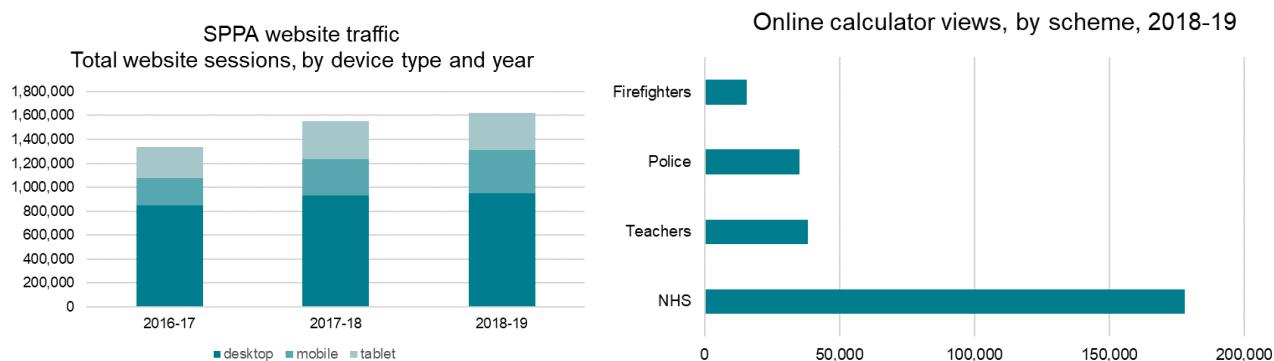


The Agency has developed a demographic analysis of its scheme membership designed to forecast future changes and the expected impacts on its 'business-as-usual' work activities. Forecasts indicate an expected uplift in the overall membership and associated work activities by approximately 2% in the year ahead. This will provide a platform to better understand decisions made by members and plan work activities accordingly.

Website activity

There has been growth in activity on the SPPA website. The number of user sessions increased by 22% between 2016-17 and 2018-19, with the greatest increase occurring in the volume of traffic on mobile devices (62% increase).

Chart 4: SPPA website traffic, Chart 5: Online pension calculator views



The accessibility and features of the Agency's website have been improved, reflecting the range of devices and operating systems used to access it, and the needs of users. Customer feedback will continue to inform future developments and will form an important plank in promoting channel shift amongst members to more digitally based platforms.

Customer feedback

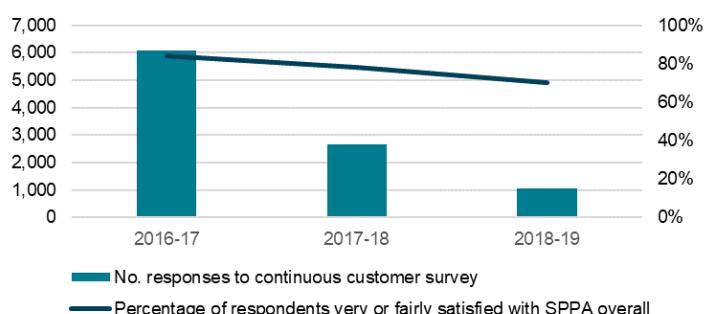
The Continuous Customer Survey launched August 2016 was designed to replace the previous Annual Customer Survey. It gathers feedback from customers about their experience with the SPPA.

The number of participants who completed the survey in 2018-19 was 1,037, which represents a decline from 2,645 the preceding year and a high initial uptake of 6,094 in its first year. The proportion of respondents who reported being extremely satisfied or quite satisfied with the SPPA overall was 70% in 2018-19, down from 78% the previous year.

Actions that have been taken to address feedback received from the survey include developments to the SPPA website to clarify terms and timescales associated with annual statements, a campaign to assist employers with annual returns, and improvements delivered to online services. Feedback will continue to be monitored and used to inform continuous improvement.

Chart 6

Customer Survey number of responses, and overall satisfaction with SPPA
2016-17 to 2018-19



1.4.4 Financial position at the end of the year

The Agency operated within its budget allocation for 2018-19. A summary of actual expenditure compared to budget is detailed in the table below.

Table 2: Comparison of budget and actual expenditure in 2018-19

	Budget allocation £000	Actual outturn £000	Overspend/ (underspend) £000
Resource	16,045	15,244	(801)
Depreciation	1,050	842	(208)
Capital	3,357	2,973	(384)
Total expenditure	20,452	19,059	(1,393)

The resource underspend of £0.801 million is due to staff savings from delays in recruitment, lower than expected actuarial costs as the UK Government has paused the cost cap valuation exercise, and a number of other smaller underspends over a range of expenditure areas. The underspend on depreciation of £0.208 million includes the gain on indexation of property, plant and machinery of £0.108 million. Capital expenditure is under budget by £0.384 million mainly as a result of the re-phasing of the improvement programme for the pension administration and payroll system.

Further analysis of the financial results for the year to 31 March 2019 is detailed at paragraph 1.5.11 together with long term expenditure trends.

1.4.5 Governance and performance

The role of the respective governance boards and committees in enhancing business performance is given in more detail in paragraph 2.3.1. The role of the Management Advisory Board was clarified in the Scottish Government's publication 'On Board – A Guide for members of Management Advisory Boards' [March 2017]. The Agency's Audit and Risk Committee is guided by the Scottish Government's 'Audit and Assurance Committee Handbook' (April 2018). The terms of reference for each of these bodies is revised annually and any changes necessary are incorporated and published on the Agency's website. In essence, value is added by members of the Audit and Risk Committee in providing the Management Advisory Board and the Accountable Officer with their assurance needs by reviewing the system of risk, internal control and governance in operation. The Management Advisory Board assists the Accountable Officer by constructively challenging the Agency's strategic direction and reviewing the Agency performance against targets throughout the year.

The Agency's approach to performance reporting reflects changes contained in the rolling Strategic Plan and this is set out in the section below. The Plan's strategic objectives generate a set of key performance indicators more reflective of the Agency's strategic aims and objectives, customer service reviews, and more holistic approach to tasks based on a revised target operating model. An assessment of the risks and uncertainties affecting performance are referred to in section 2.3.6.

1.4.6 Audit arrangements

The appointed external auditor is Stephen Boyle, Audit Director in Audit Scotland who is assigned the Agency's audit to 2020-21. Scottish Government's assigned internal auditor's manager for most of the year was Stuart Dickson. The Agency is most appreciative of the contribution made by both teams during a period of major change in the Agency.

1.5 Performance analysis

1.5.1 SPPA Strategic Plan 2018-23

The initial 5-year Strategic Plan was established in 2018 and reviewed in September 2018 and at the year end. The year-end iteration of the plan followed a review and update by the Senior Leadership Team in cooperation with the Management Advisory Board. The initial version laid out the three stages of transition, with 2018-19 as the year of 'Foundation and Transition'.

Operational delays prevented the Agency from completing this first phase within the original time period. These included the changes to the system development project and the need to implement the Target Operating Model in a phased way. Therefore 2019-20 continues the plan to establish the Foundation and Transition phase.

Despite the overall delay, there was good progress on many aspects of the 2018-19 plan and its four strategic aims. The Agency made the following progress against its four Strategic Aims:

Customer First

- Customer panels and customer personas were developed to improve targeted engagement with a broad spectrum of members.
- Service levels were redefined in service level agreements.
- Progress was made in completely refreshing the internet website and specifying member self-service provision.

Service Delivery

- A Change Coordination Group was established to help ensure that the resources required to deliver current projects (Altair Improvement, Website, target operating model, guaranteed minimum pension and scheme valuations) are carried out in a more coordinated way.
- A programme of mapping of key processes by business analysts commenced and end-to-end times for key processes were established.
- The Customer Contact Team became more embedded into the Agency, populated by staff covering the information needs of NHS and Teachers schemes. The Fire and Police schemes are scheduled to be integrated into the Team in 2019-20.
- The Scottish Government's 'Cyber Catalyst Organisation' status was achieved along with technical 'cyber essential' accreditation.

Operational Excellence

- Continuous process improvement mechanisms and structures were established
- The prototype workload and demand planning tool was employed in decision making
- Performance indicators were under review as the target operating model was being developed and in alignment with the new strategic objectives of Agency
- Efficiency measures were incorporated into the pension administration system improvement programme
- Implementation of single-stage independent review of complaints procedure was absorbed into the Policy Department function.

Developing & Empowering our People

- Finance and Policy Departments were reviewed and restructured in line with the new target operating model
- 'Principles of Customer Services' qualification was achieved by 35 Customer Service Department colleagues
- 'Change Management' training was delivered at 'foundation' and 'practitioner' level by the Association of Change Management. The role of qualified 'Change Champions' became established in departments and were being used to trial new initiatives.
- Customer service training for all customer-facing employees was delivered.

1.5.2 Guaranteed Minimum Pensions (GMP)

The introduction of the single-tier State Pension from 6 April 2016 and discontinuation of the State Second Pension, previously known as the State Earnings Related Pension Scheme (SERPS), heralded the end of 'contracted-out' defined benefit pension schemes. The change necessitated that all registered pension schemes take over the responsibility of the maintenance of Guaranteed Minimum Pension (GMP) values from HM Revenue & Customs (HMRC) from that date. As the Agency administered schemes that were formerly contracted out schemes, we are now required to ensure that the data that we hold on all members retired, active and deferred is accurate for the entire contracting out period, from 6 April 1978 to 5 April 2016. Any pension scheme member with service in a contracted-out pension scheme between those dates must have data examined to ensure the accuracy of the information held. The calculated amount that follows is the minimum pension that an occupational

pension scheme must provide for those members who were contracted out of SERPS between 6 April 1978 and 5 April 1997.

From April 2016, SPPA took responsibility for ensuring the tracking and maintaining of GMP liabilities. Additional funding was received from Scottish Government to carry out the reconciliation exercise. A supplier contract was signed in September 2017 in which the Agency assigned the task matching data held on the different computer systems. Under the contract, data queries are raised with HMRC for the Agency's four pension schemes and reconciled with data held. To ensure member data is correct, the Agency commenced a data reconciliation exercise with Her Majesty's Revenue and Customs (HMRC) in 2017 with circa two million records requiring investigation.

The Agency has employed five full time equivalent members of staff in carrying out work on behalf of circa 300,000 members. Due to the weight of numbers being processed by HMRC some delays in the return of reconciled data have been experienced nationally. As a result, the exercise continues into 2019 and once HMRC's final data cut has been verified, GMPs and pensions (over/under payments) will be calculated and each member's record updated. The Agency will write to the relevant members explaining how their pension will be affected.

1.5.3 Actuarial valuations

Pension scheme actuarial valuations for the four unfunded schemes under the administration of the Agency (NHS, Teachers, Police and Fire-fighters) are undertaken every 4 years. The key purpose of the valuations is to set employer contribution rates to ensure that the benefits to members under the schemes remain affordable over the long term. This rate takes into account the yield expected from employee contributions. In addition, the scheme's employer cost cap is assessed with any movement of more than 2% requiring corrective action. The employer cost cap was introduced by HM Treasury to protect taxpayers and public service pension scheme members from significant changes in pension costs. The employer cost cap is symmetrical so any breach that results in members' benefits being reduced or improved, depends on the direction of the breach.

The latest valuation was based on scheme data as at 31 March 2016 and has set employer contributions for the period 1 April 2019 to 31 March 2023 with the exception of the Teachers' scheme where the new rate applies from 1 September 2019. The 2016 valuation also undertook the first assessment of the employer cost cap, which saw a downward breach across all public service schemes. It was anticipated that the employer cost cap rectification action would take effect from 1 April 2019 but in January 2019, the UK Government paused work in this area. The decision arose as a result of the outcome from the Court of Appeal (McCloud/Sargeant cases) that held that the transitional protections provided as part of the 2015 reforms were unlawfully discriminated on the grounds of age. The UK Government sought leave to appeal the decision but in the meantime directed that the planned increases in employer contributions should go ahead. The cost cap and its impact on the costs to the schemes will, however, need to be reviewed in the light of the refusal by the Supreme Court in June 2019 to give leave to appeal. The Agency remains closely aligned with the Government Actuary's Department and HM Treasury on the implications of the outcome keeping Scottish Ministers and Scheme Advisory Boards informed as details develop.

1.5.4 Annual Benefit Statements (ABS)

The Public Services Pension Act 2013 requires that all scheme administrators provide members, who are active at 31 March each year, with an ABS. The Act requires that these be issued by 31 August. Where a breach to the above is likely to be of material significance to The Pensions Regulator (TPR), scheme administrators must report performance that does not comply with regulatory requirements. Pension benefit statements must comply with the requirements of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (SI 2734, Schedule 5, Part 1).

The SPPA aims to provide all customers across the ten schemes, for which it has administrative responsibility, with yearly information about their benefits. The overall result in 2018 was to issue 95.7% (2017: 82.7%) of the statements by the due date. In order to improve performance and achieve 100% compliance, the Agency ran the ABS exercise as a project using existing staff resources, but with a degree of switching between teams to assist with some of the peaks in activity. Using a project management approach allowed the SPPA to introduce several improvements based on the previous year's lessons learned.

Several firsts were achieved in 2018. 100% of statements were delivered for five out of the ten main schemes by 31 August 2018. For the remainder schemes, the Agency agreed a recovery plan with TPR to issue all statements by 31 December 2018. In the event, statements for 8 out of 10 schemes were delivered by the end of November 2018. Of the other two schemes, the Agency provided 100% of NHS officers with statements by 21 December 2018, with this being the first time that SPPA had achieved this. However, due to the complexity and technical challenges associated with calculating the NHS Practitioners statements and some lack of system functionality, it was not possible to achieve 100% by the due date. Despite the difficulties, the number of Practitioner ABS provided increased by 2,294 to a total of 5,029 issued.

In summary, out of the 256,833 eligible members, SPPA provided 254,143 statements. This accounted for 98.95% of members across all 10 schemes administered by SPPA. The 2018 project resulted in positive feedback from high profile stakeholders including TPR. SG Internal Audit reviewed the project during the year and concluded that the project had resulted in enhanced control and awarding it their second highest audit assurance rating. The rating reflects that audit are of the opinion that 'some improvements are required to enhance the adequacy and effectiveness of procedures'.

The aim of the 2019 project will be to achieve 100% compliance across all schemes and all member groups by 31 August 2019. It should be possible to create new processes for ensuring data quality and improving management of ABS production. Close liaison with the Agency's pension software provider and the adoption of an improvement programme should provide a platform to improve the necessary system functionality.

1.5.5 Target Operating Model

The TOM acronym is used in the Agency to describe a blueprint for how the organisation will operate in the future. The TOM is essentially a process that will allow the Agency to deliver its vision in which it combines its people's skills with the latest technology in the most efficient and effective way. For our customers, existing and prospective, the TOM will support the Agency's emerging business strategy. For our staff, there will be a new business 'modus operandi', providing greater clarity as to how roles and responsibilities come together to serve a common purpose.

Over recent years the Agency has had to absorb 'once in a generation' pension reform based changes and it has seen a significant increase to its customer base with the effect that it now administers a series of ten separate pension schemes and their associated regulations. To meet the challenge the Agency has invested heavily in its people. Following the adoption of the Agency's new Vision in 2017-18, for the majority of 2018-19 attention was paid to developing a business operating model that would be sufficiently flexible to accommodate the Agency's direction of travel.

The job descriptions for what was Policy, Finance and Customer Services departments under the old structure were all substantially and successfully completed by the year end. The steps in the process required a great deal of consultation with staff and trades unions and involved analysing individual tasks in some detail both in the 'as is' and 'future state'. However, it is the new roles and responsibilities that are captured in new job descriptions. An interim external review of the TOM was also conducted and endorsed the Agency's overall approach.

An implementation plan is in place to complete the process in the remaining parts of the Agency including the appointment of senior staff by the end of 2019 with a post implementation review in 2020.

1.5.6 Business Evolution

As part of the Target Operating Model, a new department was created called Business Evolution. An Interim Head of Business Evolution was appointed at the beginning of March 2019. A key role of the post-holder is acting as Senior Responsible Officer for the Altair Improvement Programme. The Business Evolution team is responsible for:

- developing future business opportunities and improving SPPA services by identifying continuous improvements to existing services and introducing new services as required
- supporting and delivering IT services and functions for SPPA IT, application platforms and any future initiatives
- delivering programmes and projects which support the future business initiatives and the continuous improvement of services.

In order to support the responsibilities above, the Business Evolution Team will set up virtual groups with separate identities and skills. The virtual teams are expected to overlap considerably and are expected to form an overall, pool of resource and talent for the Business Evolution function. In addition, there will be the need for the tactical and strategic acquisition of certain specialist skills using 'call-off' contracts. It is envisaged that these might take the form of partnerships or short term contracts with public and/or private sector organisations.

1.5.7 Altair Improvement Programme

The Altair Improvement Programme is a combination of three projects that are being undertaken by the Agency with its contracted supplier. The Improvement Programme is designed to improve the use of the Altair pensions administration software for NHS and STSS schemes. The Payroll Project's aim is to migrate the payroll for NHS and STSS schemes from the legacy software system to the integrated pension administration and payroll system. The Web-portal Project will introduce two web-portals. The i-connect service is designed to improve data transfer

between employers and the Agency. The member self-service will introduce a means for scheme members to self-serve a high proportion of functions currently handled by staff within the Agency.

The Improvement Programme began in August 2018 with a 'discovery\planning phase', which included workshops to establish a modus operandi. The LEAN/Agile working model adopted identified waste in processes and delivered agile solutions. A 'Work Breakdown Structure' was created that draws upon the 12 business areas that support the NHS and Teachers' schemes. A backlog of 'user stories' and tasks were prioritised (by customer impact, value for money and risk) and organised into 2-week 'sprints'. Key areas of waste have been identified that relate to the impact of poor data accuracy.

The core project teams have been augmented over the year by 'subject matter experts' who contribute their specific knowledge and expertise for short periods before returning to their normal work. Business analysts have been brought in to work with on-site project teams made up of Agency and supplier staff who are developing new releases of software on an 'agile' basis that add new calculations and automate more processes. A Business Change Manager was appointed to oversee the implementation of the new products into the business.

Governance arrangements were also put in place in August 2018 with members of a Programme Board meeting monthly to review project progress. Members of the Office of the Chief Information Officer provided an independent technical assurance review in January 2019 and all recommendations were agreed by the Agency. At the year end, the Improvement Programme, the most advanced of the projects, was assessed to be on track to meet its objectives.

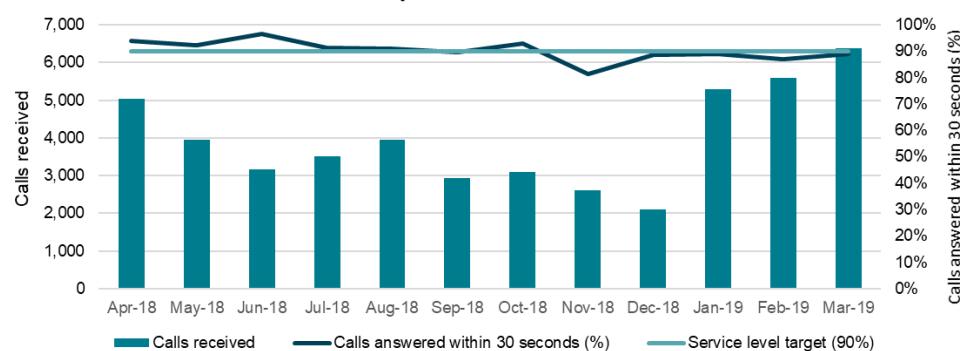
1.5.8 Customer Contact Team (CCT)

The development of the CCT continued with staff appointed to handle calls, e-mails and web enquiries from active and deferred NHS and Scottish Teachers' Pension Scheme members.

Success is measured against a set of KPIs as follows: 90% of calls answered within 30 seconds (performance: 90%); 90% of emails answered within 24 hours (performance: 71%); 80% of calls resolved in first contact (performance: 84%) and 80% of customers responding positively in a feedback survey to measure the quality of the customer experience (performance: 94%). Work is underway to address system issues with the measurement of email response times, which contributed to the KPI not being met.

Chart 7

Customer Contact Team: call volumes and percentage answered within 30 seconds, by month, 2018/19



1.5.9 Internal Dispute Resolution Process (IDRP)

The Agency has a legal obligation under Section 50 of the 1995 Pensions Act to provide a dispute resolution procedure for members of an occupational pension scheme. Appeals from members can be determined for each of the devolved pension schemes (NHS, Teachers, Police, Fire-fighters and Local Government). The IDRP process has been reduced from a two stage to a one-stage process undertaken by the Policy Directorate from May 2018 for all schemes except for Local Government.

The Policy Directorate continues to provide advice and guidance to both the customer service team and local government administrators both through lessons learned arising from IDRP outcomes and direct requests.

1.5.10 General Data Protection Regulation (GDPR)

GDPR was approved by the EU Parliament on 14 April 2016 and replaces the current Data Protection Act. It is designed to harmonise data privacy laws across Europe, to protect and empower all EU citizens' data privacy and to reshape the way organisations across the region approach data privacy. GDPR introduces tougher fines for non-compliance and breaches, and gives individuals greater rights to challenge organisations on the information they hold. It took effect on 25 May 2018, at which point, non-compliant organisations faced penalties from the Information Commissioner's Office.

Guidance from the Information Commissioner's Office and work carried out by the Agency's Head of Security helped ensure a high degree of compliance with the revised data protection laws. The three recommendations from an Internal Audit cross-cutting review into GDPR preparedness and a raft of other actions were implemented ahead of the deadline. In advance of GDPR implementation, the Data Protection e-learning was updated with all staff being required to update their training before the end of May 2018. At the year-end, 99.4% of staff had completed the Data Protection e-learning (discounting staff on long-term leave).

1.5.11 Financial resources 2018-19 and expenditure trends

Table 3: Headline figures

	2018-19 £000		2018-19 £000
Income	(927)	Total assets	21,800
Expenditure	17,399	Total liabilities	(9,082)
Net expenditure	16,472	Net assets	12,718

Income of £0.927 million consists of £0.7 million from a supplier in settlement of a dispute, and £0.227 million (2017-18: £0.214 million) from work associated with pension sharing on divorce and from the provision of pension calculation services to third parties.

Expenditure has decreased by £0.86 million (5%) from £18.259 million in 2017-18 to £17.399 million in 2018-19 mainly due to the write-off of intangible assets of £1.621 million in 2017-18.

Chart 8

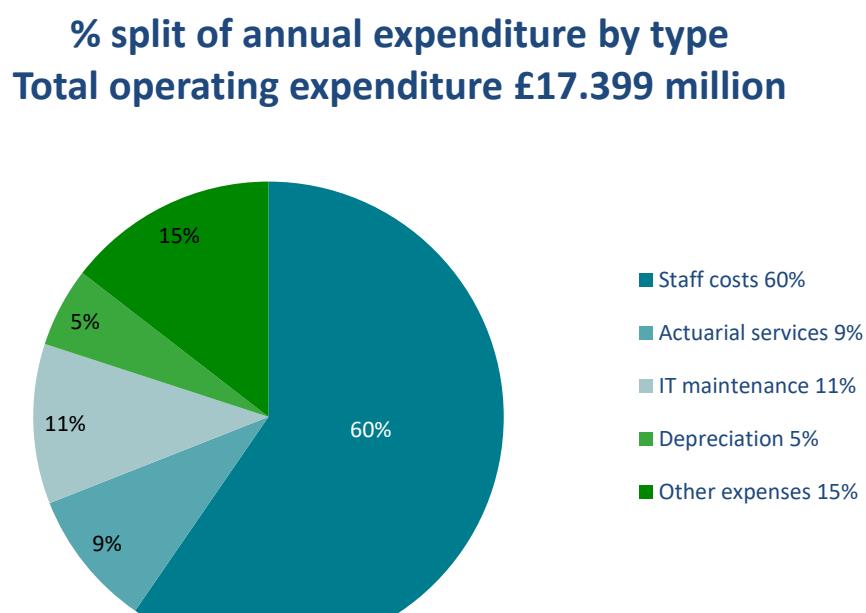


Table 4: Comparison of expenditure over 5-year period

	2018-19 £000	2017-18 £000	2016-17 £000	2015-16 £000	2014-15 £000
Staff costs	10,368	9,877	9,142	8,261	7,740
IT maintenance	1,913	1,897	1,896	1,789	1,236
Actuarial services	1,641	2,148	1,008	1,544	1,454
Depreciation	950	837	4,218	3,271	2,095
Other expenses	478	500	492	495	446
Reform of guaranteed minimum pensions	438	322	0	0	0
Compensation payments	374	23	26	2	1
Accommodation costs	354	370	300	290	320
Postage	311	215	241	412	224
Professional & technical advisory services	294	163	339	86	33
Notional charges	278	286	259	290	255
Write-off of intangible non-current assets	0	1,621	0	0	0
Pension reform communication	0	0	0	163	188
Expenditure	17,399	18,259	17,921	16,603	13,992
Expenditure relating to revaluations	(108)	(306)	(136)	(55)	(42)
Total expenditure	17,291	17,953	17,785	16,548	13,950

Staff costs of £10.368 million for 2018-19 have increased by £0.491 million since last year due to the annual pay rise and pay scale progression (2018-19 is the first year of applying increases from 1 April rather than 1 August), and an increase in the average number of staff employed by 5 FTE to meet operational requirements. Further detail is available at 2.5.1 and 2.5.2.

Actuarial services totalled £1.641 million in 2018-19, which was £0.507 million lower than the previous year. Costs are dependent on the valuation cycle for the pension liabilities of the NHS, Teachers', Fire Fighters', Police and Local Government schemes, and pension legislation changes.

Write-off of assets in the prior year totalled £1.621 million, which related to the decision to discontinue the project to implement a new pensions administration and payroll system in February 2018.

Depreciation of property, plant and equipment and information technology was £0.950 million for 2018-19, which was £0.113 million higher than the prior year. The increase relates mainly to assets associated with the enhancement of the existing pension administration and payroll systems.

Compensation payments in 2018-19 include a provision of £0.367 million for the reinstatement of an individual's membership of the National Health Service Pension Scheme (Scotland). Refer to note 11.

Professional & technical advisory services have increased by £0.131 million to £0.294 million. Costs were incurred to support a number of projects including the refresh of the website.

Notional charges cover services provided by the Scottish Government of £0.125 million, and Audit Scotland's audit fee of £0.153 million. These costs are met from the central Scottish Government's budget.

Revaluation gain of £0.108 million in 2018-19 represents the indexation of property, plant and machinery with the gain of £0.306 million in the prior year being mainly due to the revaluation of the property at Tweedbank as at 31 March 2018 by the District Valuer. Revaluations are undertaken at least every five years.

Table 5: Comparison of assets and liabilities over a 5-year period

	2018-19	2017-18	2016-17	2015-16	2014-15
	£000	£000	£000	£000	£000
Property, plant and equipment	4,964	5,030	4,928	5,014	4,680
Computer software and licenses	3,257	1,060	3,059	5,296	6,173
Trade and other receivables*	13,579	19,309	16,464	8,173	7,427
Total assets	21,800	25,399	24,451	18,483	18,280
Trade and other payables*	(8,715)	(8,127)	(8,811)	(7,696)	(7,444)
Provisions for liabilities and charges	(367)	0	0	0	0
Total liabilities	(9,082)	(8,127)	(8,811)	(7,696)	(7,444)
Net assets	12,718	17,272	15,640	10,787	10,836

*Other receivables and payables from 2014-15 include balances relating to the payment of pensions on behalf of the Scottish Police and Fire-fighters' pensions.

Total assets decreased by £3.599 million to £21.8 million at 31 March 2019, and comprised:

- **Property, plant and equipment** of £4.964 million, which included £4.595 million of freehold land and buildings
- **Computer software and licenses** of £3.257 million, an increase of £2.197 million from last year mainly relating to the improvement programme for the pension administration and payroll system
- **Trade and other receivables** of £13.579 million, a decrease of £5.730 million from 2017-18, included balances of £13.392 million relating to Scottish Police and Fire-fighters' pensions. Year end balances are lower year on year as pensions due to be paid on Sunday, 1 April 2018 were paid early to ensure receipt by the due date.
- **Total liabilities** increased to £9.082 million from £8.127 million in 2017-18. The balance at 31 March 2019 included £7.413 million (2017-18: £7.284 million) relating to the administration of Scottish Police and Fire-fighters' pensions. The provision for liabilities and charges of £0.367 million is for the reinstatement of an individual's membership of the National Health Service Pension Scheme (Scotland).

Further information on the Agency's income, expenditure, assets and liabilities can be found in the Financial statements. The Agency can confirm that there were no cases of fraud reported during the year. The Agency's policy on anti-corruption, bribery and counter fraud is available to all staff on the Agency intranet which includes a fraud response plan should a potential case occur.

1.5.12 Benchmarking

The 2018 CEM Benchmarking report (1 April 2017 to 31 March 2018) allows SPPA to:

- understand how service delivery compares with UK best practice
- develop performance goals
- drive performance improvements
- understand how costs compare
- communicate performance to stakeholders.

The report compares the SPPA's governance and pension administration costs, and member service with a UK peer group of other schemes. There were 9 contributing members to the report, including the SPPA. This provides a basis to gauge performance against best practice.

The 2018 total cost per member was £25.95 (2017: £29.67) with the peer average being £32.07 (2017: £28.39). The total cost was £6.11 below the peer average.

The 'member service' score was 57 out of 100 (2017: 56) against a peer average of 63 (2017: 63). Service is defined from the member's perspective.

Higher service means more channels, faster turnaround times, more availability, more choice, better content and higher quality. Higher service is not necessarily, however, cost effective. For example, the ability to answer the telephone 24 hours a day is higher service, but not necessarily cost-effective.

The main contributing reasons for the slight improvement in the service score were an increase in the number of members logging into the SPPA website, and the introduction of a target for call wait times.

The Agency scored well for the content of benefit statements and digital services, but there were still improvements that could be made in the use of social media. Although the scope of service targets increased, there was room for improvement in setting more and stronger targets. The introduction of telephone satisfaction surveys should lead to a further improvement in the service score.

1.5.13 Best Value initiatives

Accountability for the propriety and regularity in the use of public finances and for achieving Best Value from the use of the funds lies with the Accountable Officer. The use of 'review and option appraisal' is one of the key characteristics of the Best Value agenda and is being used in formulating the Agency's change programme.

A new version of the Agency's Framework Agreement document was signed by Scottish Ministers on 12 December 2018. Best Value featured in its preparation including updated Terms of Reference for the Agency's governance bodies informed by the Scottish Government's 'On Board: A guide for members of Management Advisory Boards' publication.

Progress has also been made on reviewing terms of reference for the Pension Boards and ensuring compliance with The Pension Regulators Guidance Note 14.

The Customer Service Review (the 'Review') conducted in 2015 and more recently 'customer panels' have informed much of the Agency's subsequent business planning and has resulted in closer working relationships with the Agency's stakeholders. Putting customers at the heart of new products and services features strongly in the Agency's digital vision, service innovation and commitment to excellence in service standards.

An example of service innovation was the work carried out to completely refresh the Agency's website, making it fit for purpose for a greater existing and prospective number of service users with different operating systems, and with physical disabilities. Access to a range of features including on-line pension calculators to allow members access to estimates of the future pension benefits are in place for all scheme members. Statistics on the user experience and the results of customer satisfaction surveys will be used to inform future improvements.

In order to obtain an independent and objective view of the progress of the Agency's Altair Improvement Programme technical assurance reviews were commissioned and carried out by the Scottish Government's Office of the Chief Information Officer. Based on the Review Team's 2019 assessment 15 recommendations are being taken forward to secure the best value possible in developing the Agency's pension software system over the longer term.

The Agency's approach to sustainability, equality and corporate social responsibility are described in the Director's report.

1.5.14 Efficiency and effectiveness initiatives

The Agency is committed to securing a good return on its IT and estate capital investment. Areas for making efficiencies have been identified for future monitoring and reporting.

In terms of effectiveness, it has long been known, for instance, that seizing opportunities to make improvements to data quality would feed through into improved service standards. Minimising duplication of member data and reducing the need for reworking of customer records should be achievable through implementing the project to migrate pension records onto a unified platform for all four occupational schemes. This will involve 'scrubbing' the migrated data and maximise the streamlining and simplifying of current systems and processes to rectify historical data anomalies. The Agency is already beginning to apply more data analytic (e.g. google analytics) and forecasting (e.g. workload planning and customer demand) tools. Closer employer liaison and sharing of intelligence will further improve forecasting techniques. Increased data validation checks at source and improved employer data submission timeliness by applying new web based system functionality (e.g. employer i-connect data exchange) is also on the horizon.

Increase rates of on-line customer registration for more paperless and postage-free communication should enhance the efficiency agenda. Facilitating member channel shift to web-based digital services including member self-serve to on-line functionality including calculators and straight through transaction processing will go some way to increasing the flexibility and accessibility of the service offering. As can be seen from the charts produced in the Annual Report, statistical analysis is being used to monitor performance and make improvements in this area.

By facilitating email notification and introducing all mail indexing and tracking there are savings to be made in direct running costs such as postage and printing. Using more mobile technology, optimising the range of services offered by the Customer Contact Team and examining office space utilisation will feature as part of the implementation of the Agency's Estate Strategy going forward. Employing more sustainable and energy efficient heat, light and power will feature as part of the Agency's Environmental Strategy. Some of the benefits of this approach can already be seen from the Agency's Sustainability Report.

1.6 Business development and corporate planning

1.6.1 Agency's People Strategy

The Agency's 2016-2019 People Strategy was developed to support the Agency's Strategic Plan and the Scottish Government 'SG2020' focus, which is about becoming the organisation 'we need to be and want to be for the future'.

1.6.2 Agency's Strategic Plan

The Agency prepared a 5-year rolling Strategic Plan commencing in 2018-19 to reflect new implementation timescales for its change management programme. This document was updated during the year in line with new budget information, referencing any changes in the strategic direction of the Agency or any relevant policy change in Scottish Government.

1.6.3 Agency's Strategies

The Agency is scheduled to carry out a full review of its key strategies in 2019-20. Where applicable these are in alignment with Scottish Government strategies, but local action plans will be agreed to take objectives forward.



Penelope Cooper
Chief Executive
22 July 2019

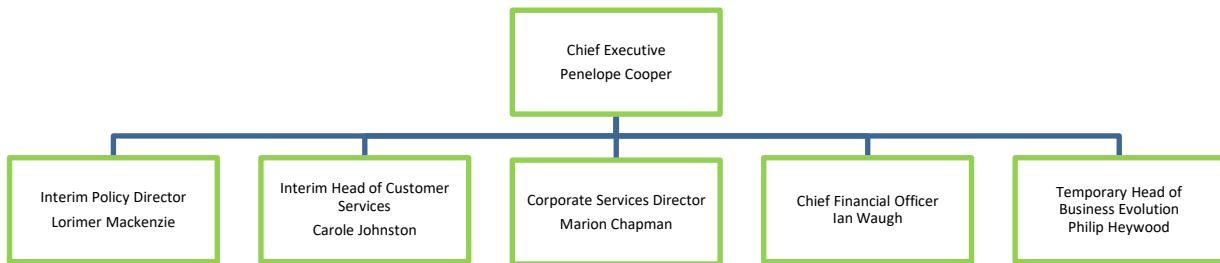
2.1 Directors' Report

2.1.1 Funding

The Agency is part of the Finance, Economy and Fair Work Portfolio of the Scottish Government. The Agency is funded through the Scottish Government's Programme Budget, which is overseen by the Scottish Government's Chief Financial Officer, Gordon Wales.

2.1.2 Directors and management structure

Day to day management is overseen by the Strategic Leadership Team, which at 31 March 2019 comprised:



The directors and senior management of the Agency who served during the year were:

Penelope Cooper	Chief Executive and Accountable Officer
Lorimer Mackenzie	Interim Policy Director
Carole Johnston	Temporary Head of Customer Services from 20 August 2018
Eleanor Guthrie	Interim Head of Customer Services to 31 May 2018
Marion Chapman	Corporate Services Director
Ian Waugh	Chief Financial Officer
Sally Paterson	Head of People Services from 1 April 2018
Philip Heywood	Temporary Head of Business Evolution from 4 March 2019
Tony Bayliss	Temporary Digital Transformation Director to 31 October 2018
Jeanette Innes	Temporary Head of Governance to 21 December 2018
Gillian Thompson	Non-executive Member, and Non-executive Chair to 31 March 2019
Stuart Smith	Non-executive Member, and Audit & Risk Committee Chair to 31 March 2019
Sheena Cowan	Non-executive Member
Liz Holmes	Non-executive Member
Ian Forbes	Non-executive Member
Jane Malcolm	Non-executive Member
Gordon Wales	Non-executive Member nominated by the Director General Exchequer, Scottish Government

None of the directors held any company directorship or other significant interests, which may have conflicted with their responsibilities during the year. Penelope Cooper is a director of the Wise Group, a social enterprise, which receives funding from the Scottish Government.

The posts listed above, of a temporary or interim nature, await the outcome of an organisational review that is due to be concluded in 2019-20.

Helen Mackenzie, Mark Adderley and Norman McNeil were appointed Non-executive Members as from 1 April 2019 with Helen Mackenzie also appointed as Audit & Risk Committee Chair.

2.1.3 Personal data related incidents

Under Data Protection legislation, SPPA is required to report personal data breaches to the Information Commissioner's Office (ICO) if risk to the individual is considered likely. During 2018-19 there were two reportable breaches referred to the ICO, which related to the production of annual benefit statements and associated quality assurance checks. Processes have been reviewed and improvements introduced. In both cases, SPPA's established data breach management procedures were followed, and the ICO deemed that appropriate remedial action had been taken.

2.1.4 People Strategy

The SPPA People Strategy aligns closely with the Scottish Government 2020 plan (SG2020) which aims to be Open, Responsive and Capable. This strategy is underpinned by the Civil Service values of integrity, honesty, impartiality and objectivity and is led by the following five key themes:

- being a supportive and fair employer
- supporting and influencing leaders and managers
- supporting staff and customer engagement
- supporting and encouraging achievement
- supporting and influencing organisational change.

The People Strategy supports the focus on the 'Foundation and Transition' theme in the Agency's Strategic Plan.

2.1.5 Human Resource (HR) policies and culture

The HR role within the Corporate Services Directorate adheres to Scottish Government policies and current employment law. The HR Team hold regular awareness sessions for managers and staff covering attendance management, performance management and flexible working. This ensures that all staff are working consistently within these SG HR policies and that all our people are treated fairly and with respect. The team also holds regular staff drop-in sessions and has supported managers through the Scottish Government's recruitment policy.

The Agency supports a wide range of family-friendly policies such as flexible working (including a number of alternative working patterns e.g. term time working), parental leave, paternity leave, special leave, career break opportunities, and childcare vouchers. These policies help attract high quality external applicants, retain expertise and create interest from the local workforce.

The Agency encourages staff to participate in both the business planning process and objective setting, and recognises the importance of 'monthly conversations' between managers and team members giving individuals an opportunity to discuss performance, well-being, and training and development needs.

2.1.6 SPPA People Survey

As an Agency of the Scottish Government, staff are invited to participate in the annual Civil Service People Survey. The Agency continued to face some challenging results and this is a similar trend to the Scottish Government. Based on the findings of the 2018 survey, which was completed by 258 staff (82% return rate), the Strategic Leadership Team agreed that the focus for improvement should be based around the three themes of managing change, leadership, and resources and workload.

2.1.7 Investors in People (IiP)

The SPPA has 'Gold' status accreditation from IiP (refer to 2.3.20 for further details). During the year, the Agency received a Health and Wellbeing award from IiP in recognition of the work undertaken to support staff. The Agency also received a Borders College Employer Recognition award for upskilling and educating staff.

2.1.8 Youth employment

The Agency continues to support the Modern Apprenticeship Programme and recognises how valuable it is for the future of the Scottish Borders and wider Scotland. The Programme has been a very positive and successful addition to the Agency's recruitment process.

The Agency works closely with the Developing the Young Workforce (Scottish Borders) team and regularly attends career fayres, meetings and open days at all nine of the secondary schools to promote SPPA and the Scottish Government. Support continues to be given to student placements, work experience and pupil placements, and to providing advice and mentoring in relation to job applications and interview techniques to secondary school pupils and college students.

2.1.9 Health and safety

The Agency provides a safe and healthy working environment for all staff. The Scottish Government's Health and Safety Management Systems and procedures are applied, and to ensure this, SPPA:

- has a Health and Safety Committee
- works in partnership with Trade Union representatives to address any safety issues
- encourages a pro-active safety culture
- has a number of Health and Safety Liaison officers
- completes inspections and workplace assessments
- holds annual reviews of risk assessments which are reported to the Management Advisory Board
- completes quarterly workplace assessments
- completes weekly fire alarm testing and quarterly fire prevention inspections
- implements all legislative requirements.

The Agency has trained personnel to advise on safe systems and working environments, and on health and safety developments. Commitment to training is demonstrated by full and refresher training sessions during 2018-19 on first aid at work, fire marshalling, display equipment assessment and legionella control.

As a result of these procedures, reportable incidents are low with five minor cases reported in 2018-19 requiring first aid (2017-18: two cases).

2.1.10 Employee relations – working in partnership

The Agency recognises the importance of good industrial relations and is committed to effective employee communications. The monthly All Staff sessions provide staff with regular briefings on developments and a forum to discuss issues and ask the Strategic Leadership Team questions. The SPPA 'Open Door' policy, HR drop in sessions and Stress workshops reinforce the commitment to staff and their health and well-being.

The Agency's HR team and local Trade Union members hold monthly meetings to discuss issues and staff concerns. The half-yearly 'Partnership' meetings also provides the means for representatives of staff and management to discuss matters of concern or mutual interest and is based on a local Partnership Agreement. The Target Operating Model project team have worked closely in partnership with local and central Scottish Government union colleagues to agree the formal process for the project to ensure a fair approach to the proposed changes.

2.1.11 Equality and diversity

The Agency is an equal opportunities employer and follows the Scottish Government's commitment to treat everyone with dignity and respect. The Agency is also committed to meeting its public sector duties under the Equality Act 2010.

Policies are in place to guard against discrimination, and as an Agency of the Scottish Government, the [Race Equality Framework for Scotland 2016-2030](#) is adhered to with on-going development of in-house structures and systems to ensure that equality is an integral part of thinking and behaviour.

Where the Agency has introduced a new or revised policy or undertaken a project, which has a direct impact on internal or external stakeholder, an Equality Impact Assessment is prepared and published as a Scottish Government publication, and can be referenced at [Equality Impact Assessment Search](#).

In-house courses continued for staff during the year. All those involved on interview panels must complete the Civil Service 'unconscious bias' training in advance to ensure a fair, transparent and consistent approach to recruitment. As part of the induction programme, all new starts must successfully complete Diversity training.

The Agency continues to support alternative working and 91 members of staff (2017-18: 92) currently work part-time with a further 9 full-time staff (2017-18: 10) working contracted alternative working patterns.

2.1.12 Human rights

Non-discrimination is a cross-cutting principle in international human rights law. The principle applies to everyone in relation to all human rights and freedoms and is enshrined in Scottish Government's employment policies. They prohibit discrimination on the basis of a list of non-exhaustive categories such as sex, race and ethnic origin, religion and belief, disability, age and sexual orientation. The principle of non-discrimination is complemented by the principle of equality, as stated in Article 1 of the Universal Declaration of Human Rights.

2.1.13 Corporate social responsibility (CSR)

Acting responsibly is fundamental to how the Agency carries out every aspect of its business, which is important in earning and retaining the trust of the Agency's stakeholders and employees. The Agency knows the value of its people, and shows this by encouraging their technical and managerial development, by recognising achievement and by looking after all aspects of their wellbeing.

Through its policies, the Agency seeks to make a difference across a range of areas that encompasses CSR. Also, staff make, and will continue to make, a contribution to communities not just in the Scottish Borders but across Scotland. The sense of responsibility towards the community (socially, economically and environmentally) in which we operate contributes to the Scottish Government's National Performance Framework.

Some of the other areas where CSR policies have made a difference are expanded and summarised below.

Environmental

- looking to widen the scope of materials recycled at the Tweedbank office
- encouraging the use of the Scottish Borders Railway, cycling and car share arrangements
- encouraging the use of virtual meetings either through tele-conferencing or video-conferencing.

Social and Philanthropic

- facilitating more volunteering in the community in areas such as Special Constables, Children's Panel Member, and Victim Support
- provision of multi-media sites in the building to promote information sharing on a range of work and social subjects from a range of in-house and external information sources
- encouraging fundraising events held for annually nominated charities including for 2018-19, the Borders Holiday Group supporting the seriously ill and disabled, and My Name'5 Doddie for motor neurone disease
- supporting 'healthy working lives' classes and activity groups
- collaborating with local charity Scottish H.A.R.T to install a defibrillator device outside the building.

Economic

- recruiting employees under the Scottish Government's Modern Apprentice Programme
- contributing to further cost reduction initiatives incorporating the principles set out in the Agency's new Procurement Strategy
- building an on-line pension calculators to provide scheme members with the information and tools needed to make more informed decisions about retirement and therefore help optimise their income stream in retirement.

Legal and Regulatory

- prioritising funding for the Disability Discrimination Act 1995 compliant estate
- building disability needs into new pension service software design
- prioritising customer centred approaches to enable compliance with the UK Pension Regulator guidance.

Ethical

- building an ethical approach into Agency policy and practices such as debt recovery and bad debts write-offs
- considering the wider interests of stakeholders in decision making including the use of Impact Assessments
- facilitating greater use of flexible working arrangements for staff in response to changes in shortened local school opening times on Fridays.

The Agency continues to support health and wellbeing policies for staff and the 'Healthy Working Lives' initiative and maintain its 'gold' accreditation. The initiative encompasses:

- health awareness information using a dedicated intranet page and staff information stand
- smoking cessation advice
- a link through the Scottish Government to a Health and Wellbeing Programme and Employee Assistance Service
- on-site influenza vaccination
- facilitation of a running group, yoga classes and social events.

2.1.14 Sustainable environment

The Agency is conscious that it has a part to play in meeting the Scottish Government's environmental targets as well as contributing to the wider social and economic sustainability agenda. The Agency is committed to improving environmental performance as part of the wider commitment to sustainable development. The Agency recognises that it has a legal and ethical responsibility to protect and enhance the environment and is working towards sustainable practices in the use and disposal of materials, energy, and transport and landscape management.

Where there are opportunities to build sustainability into planning this will continue. A commitment to sustainability is built into the Agency's business cases, procurement strategy and 'invitations to tender'. Typically, contracts have been signed with suppliers that commit to reducing the consumption of materials and harmful emissions as part of the goods and services procured and provided. Further commitment to run an apprenticeship programme aimed at developing skills and knowledge and which complements the Agency's modern apprentice programme is encouraged.

The Agency runs the Scottish Government's EASEbuy e-procurement system that carries out on-line three-way matching of orders, goods received and invoices for day-to-day business procurement needs. The Agency looks to streamline contracts when they fall due, as it did when a number of existing facilities management contracts were consolidated into one new provider contract.

The Scottish Borders Railway opened in September 2015 has transformed the transportation landscape for the local population and staff at the Agency. It has opened up the possibility of door-to-door rail travel from the Tweedbank office to Scottish Government offices in Edinburgh in a little over one hour. This option has reduced the call on the travel and subsistence allowance in addition to reducing greenhouse gases by migrating from car to train. The Tweedbank to Edinburgh service also provides a feeder system to further pan-Scotland transport connections.

The Agency also benefits from the use of teleconferencing, videoconferencing, and 'clickshare' technology for document access and sharing. 'Wi-Fi' for staff and visitors linked into the Scottish Government's 'Scots' network is available to visitors to the Agency attending Pension Board meetings, in addition to other governance meetings. The use of technology in these areas obviates the need to carry much, if not all, of the papers normally associated with attending meetings.

The office building at Tweedbank was designed to be energy efficient through effective thermal insulation, including a sedum roof, and utilises renewable energy from solar panels. As part of its environmental

strategy, SPPA is committed to responsible energy management and practises energy efficiency to protect the environment and avoid unnecessary expenditure.

The Agency has worked closely with the Scottish Government Environmental Team to collate its energy data and therefore support the Scottish Government in the preparation of its annual report on its Carbon Reduction Commitment. Efforts to improve environmental performance, increase energy efficiency, and, where possible, minimise its use of resources continues. The Agency sets environmental targets in carbon emissions, gas and electricity usage, water consumption, and is committed to waste recycling. The targets were exceeded in 2018-19. Further information about the Agency's performance during the year can be found on the SPPA website.

2.1.15 Risk management strategy

Risk Management is a key element in the Agency's governance arrangements. The Agency uses the Scottish Public Finance Manual as the basis of risk management policy setting and also uses the approach laid out in the Scottish Government publication 'Risk Management: The Scottish Government Guide' April 2018 for managing risk across the Agency.

The Agency has a Corporate Risk Register, which is reviewed quarterly by the Strategic Leadership Team. The Corporate Risk Register is underpinned by work carried out by the Risk Governance Group and has since been charged with ensuring the Strategy is delivered and risk management is embedded into the Agency.

The Management Advisory Board provides high-level governance and strategic oversight of the Agency and is supported by an effective Audit and Risk Committee, which examines the changes to the Corporate Risk Register on a quarterly basis and takes into account the risk emanating from the environment.

2.1.16 Counter fraud

The Agency continues to participate in the biennial National Fraud Initiative (NFI) facilitated by Audit Scotland and in a biannual mortality screening exercise. The last biennial NFI data cut exercise was conducted in October 2018 and many of the matching overpayment cases will be pursued 2019-20. The NFI exercise also assists in updating member records. Dates of death, status change, and record notations all assist in improving data quality, with the added benefit of making the quadrennial scheme valuations more accurate.

As part of business as usual biannual mortality screening, matched data is received back within three months after submission. A raft of data analysis is required to identify the appropriate response required in cases relating to reemployment, mortality and deferral. Following initial analysis, appropriate action is taken, such as, the suspension of a pension, the imposition of an earning limit or the updating of pension and payroll record.

The latest published Audit Scotland Report on the biennial National Fraud Initiative results for 2016-17 was issued in July 2018. The data collected in 2018-19 will be included in the next national report in 2020. The NFI provides pension administrators with an effective way of checking that they are only paying people who are alive. As people choose to continue to work beyond their scheme's normal retirement age, it is important to receive corroborated data to ensure that earnings limits are observed when there are pensions already in payment.

The NFI data matching exercises and mortality screening described above provides valuable tools in preventing fraud and error. A further data matching tool has been added to the Agency's armoury with the trial of a web-based system provided by the Cabinet Office called 'AppCheck'. Operated on an annual licence, it leverages the NFI database to help prevent fraud or mistaken payments by public sector delivery bodies. By using it to its full potential, it allows the Agency to match its membership data to over 300 million records that are captured as part of the NFI mandate exercise.

2.1.17 Auditors

The accounts are audited by Stephen Boyle of Audit Scotland. The notional fees are reported in the Financial statements at Note 3.3. Audit Scotland has provided only audit services to the SPPA during the year. Internal audit services are provided by the Scottish Government Internal Audit Directorate; the scope of work of Internal Audit is determined following discussion with management and is subject to approval by the Audit and Risk Committee.

2.1.18 Date accounts authorised for issue

The Accountable Officer authorised these financial statements for issue on 22nd July 2019.

2.1.19 Accounts direction

The 2018-19 accounts have been prepared in accordance with the Accounts Direction given by the Scottish Ministers in accordance with section 19(4) of the Public Finance and Accountability (Scotland) Act 2000.

2.2 Statement of Accountable Officer's responsibilities

Under section 19 of the Public Finance and Accountability (Scotland) Act 2000 the Scottish Ministers have directed the Scottish Public Pensions Agency to prepare a statement of accounts for each financial year in conformity with the accounts direction on page 63 of these financial statements, detailing the resources required, held or disposed of during the year and the use of resources by the Agency during the year.

The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Agency and of its income and expenditure, Statement of financial position, changes in taxpayers' equity, and cash flows for the financial year.

The Principal Accountable Officer of the Scottish Government appointed the Chief Executive of the Scottish Public Pensions Agency as the Accountable Officer for the Agency. As Accountable Officer, the Chief Executive is responsible to the Scottish Ministers.

In preparing the accounts, the Accountable Officer is required to comply with the Government Financial Reporting Manual, and in particular to:

- observe the accounts direction issued by the Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the financial statements
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Agency will continue in operation
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

The responsibilities of the Accountable Officer, including responsibility for the propriety and regularity of the public finances for which the Accountable Officer is answerable, for keeping proper records and for safeguarding the Agency's assets, are set out in the Memorandum to Accountable Officers from the Principal Accountable Officer.

As Accountable Officer, I am not aware of any relevant audit information of which our auditors are unaware. I have taken all necessary steps to ensure that I am aware of any relevant audit information and to establish that the auditors are also aware of this information.

2.3 Governance statement

2.3.1 Purpose of the governance framework

The governance framework is designed to ensure that the Agency complies with the highest standards of probity while delivering value for money, safeguarding public funds, delivering good quality service to its customers and other stakeholders, and being fully accountable for its actions. The Agency complies with the guidance contained in the Scottish Public Finance Manual (SPFM) and guidance note 2 of "On Board: A Guide for Members of Management Advisory Boards" published by Scottish Government.

2.3.2 Scope of responsibility

As Accountable Officer, I am responsible for maintaining an adequate and effective system of internal control, which supports the achievement of the organisation's aims, objectives and policies including those set by Scottish Ministers, while safeguarding the public funds and assets for which I am personally responsible in accordance with the responsibilities assigned to me.

The Agency adheres to the SPFM issued by the Scottish Ministers to provide guidance to the Scottish Government and other relevant bodies on the proper handling and reporting of public funds. It sets out the relevant statutory, parliamentary and administrative requirements, emphasises the need for economy, efficiency, effectiveness and equality, and promotes good practice and high standards of propriety.

2.3.3 Agency's Framework Document

One of the Agency's principal tasks for the year was to refresh the Agency's Framework Document in terms of its content and presentation. The Framework represents an agreement between the Agency and Scottish Ministers that lays out the relationship in terms of the respective roles and responsibilities for carrying out the Agency's functions. It forms the basis for the rolling 5-year Strategic Plan and other planning documents that underpin the Agency's vision in practical ways. The Minister for Public Finance and the Digital Economy signed-off the revised Framework Document on 12 December 2018.

In terms of governance, the Agency is responsible for putting into place sound governance arrangements to provide accountability to Scottish Ministers and organisational direction so as to positively influence behaviour and cultures. As the principal source of reference for governance, the 'Framework Document' describes and sets out the:

- relationship between SPPA and Scottish Ministers
- roles and functions of SPPA
- responsibilities of the Accountable Officer and Scottish Ministers
- Agency's objectives & performance measures
- management & resources framework within which the SPPA operates.

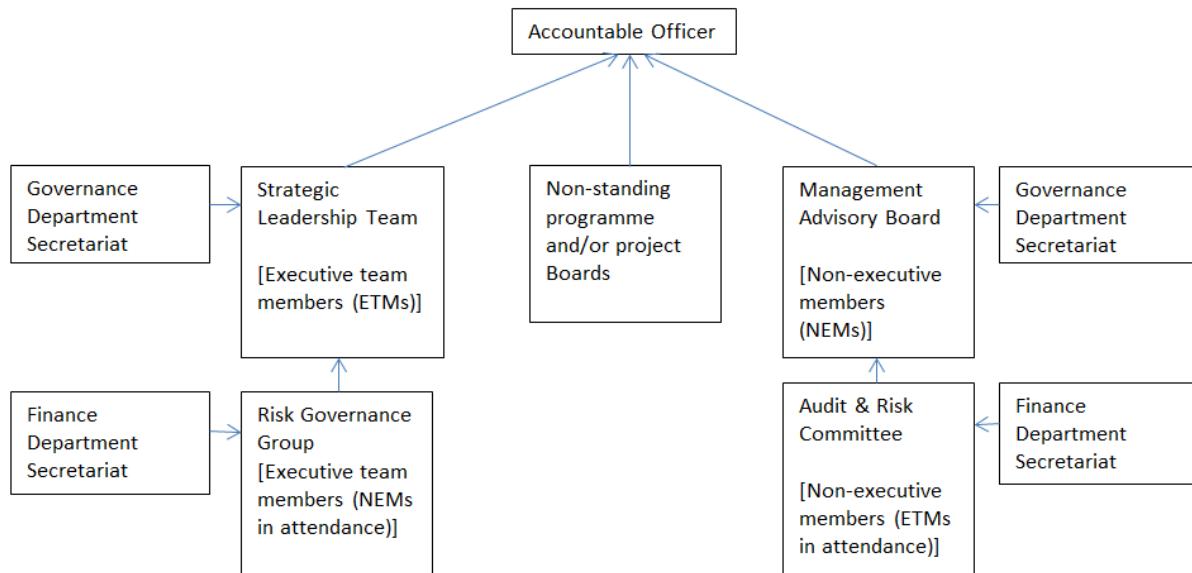
2.3.4 Strategic planning

The Agency's published vision is 'to provide excellent customer service, combining skills and technology, to maximise efficiency and deliver best value to taxpayers in Scotland'. A Strategic Plan for the period 2018 to 2023 was agreed during the year incorporating a new vision and strategic aims, setting out key deliverables over a 5-year period and linking it to an indicative budget.

The Agency's commitment to change manifested itself in the work carried out to establish an Agency-wide target operating model (TOM). The TOM has been designed with the Agency's future direction of travel in mind and in its structure has created a new department headed up by a Head of Business Evolution. Participation in business planning is taken seriously at all levels of the organisation. Strategic objectives are cascaded to departments through business planning sessions at which key team tasks are identified. Key business planning messages are promulgated across the Agency at regular 'all-staff sessions'. A strategic planning day is organised annually at which interactive workshops are held and it is open to non-executive members to attend to share their knowledge and express their views. As the Agency continues to evolve, the 5-year Strategic Plan will be updated on a rolling basis in order to best reflect the programme of change and any significant changes in central government funding.

2.3.5 Agency's primary governance bodies designed to 'advise' the Accountable Officer

A schematic of the bodies assisting the Accountable Officer in the governance of the Agency is provided below. A schematic for pension scheme governance is provided on the Agency's website at: <http://www.sppa.gov.uk/Documents/Governance/2%20Governance%20Schematic.pdf>



2.3.6 Corporate governance management arrangements changes

As described below, two non-executive members left the Agency at 31 March 2019 and three members joined. The gender balance of the six non-executive members on the Board at the year-end was 2/3:1/3 female to male. The gender balance of the six members of the Strategic Leadership Team was 50:50 female to male. The Strategic Leadership Team comprised the Chief Executive, Chief Financial Officer and Head of People Services. It also included interim Heads of Policy, Customer Services and Business Evolution.

Both the Board and the Audit and Risk Committee carried out a self-assessment of their effectiveness using criteria set by the Scottish Government. Both were deemed to be effective in carrying out their functions. Also, the Audit and Risk Committee provided a full account of its activities on a quarterly basis to the Management Advisory Board. Corporate governance arrangements, overall, were considered to comply with generally accepted best practice principles and relevant guidance.

2.3.7 Management Advisory Board

The advisory nature of the Board is one that is set out in the Scottish Government's publication 'On Board: A Guide for Members of Management Advisory Boards'. Non-executive members are appointed to act in an advisory capacity to the SPPA's Accountable Officer and Chief Executive and are, therefore, neither personally or collectively accountable for the Agency's performance.

As part of the annual review of the Framework Document and in line with best practice, the terms of reference of the Board were reviewed and amended. The Agency carried out a self-assessment exercise that highlighted a number of changes, which were reflected in the updated Terms of Reference. For instance, in order to strengthen its purpose and delivery from 1 April 2019 it was agreed that the Board will be chaired by the Chief Executive.

Over the year, the Board has benefited from an experienced cohort of six non-executive members, together with a representative from Scottish Government - the Agency's 'Fraser figure'. From 1 April 2019, the Agency will lose two members and gain three new members with extensive experience in business transformation, leadership, IT delivery, procurement and defined benefit pension schemes.

During the year, the Management Advisory Board met on four scheduled occasions and also on 30 April 2018, to consider the Altair Programme business case. The Board also met out-with the regular cycle of meetings to consider strategic issues at a Strategic Planning Day on 23 March 2019.

The Board's work has included:

- considering the content of Agency's Annual Business Plan and rolling 5-Year Strategic Plan
- receiving reports from the Chief Executive on the Agency's progress in achieving key tasks and meeting performance indicators
- receiving reports on the work of the Audit and Risk Committee and contributing towards the risks assessed in the Agency's Risk Register
- considering financial statements such as the Agency's draft Annual Report and Accounts and drafts for the NHS Scotland and Scottish Teachers' Pension Schemes
- receiving quarterly financial and budgetary updates from the Chief Financial Officer
- receiving an Altair Programme business case and regular updates on progress
- receiving regular updates on projects such as Guaranteed Minimum Pensions, Annual Benefit Statements and the Target Operating Model projects
- considering annual reports, such as, the annual People Survey results and interim 'pulse' survey
- considering changes in strategy such as a revised Communications Strategy and accompanying action plan
- considering performance such as through 'CEM benchmarking'
- carrying out and reporting upon horizon scanning conducted between meetings.

2.3.8 Strategic Leadership Team

Strategic Leadership Team (SLT) meetings are held at least monthly with senior staff representation from across departments. Meetings are designed to focus on key, short-term deliverables and actions based around people, process, performance and customers. As part of its remit to consider business strategy, SLT met outwith its usual cycle of meetings to give more detailed consideration to the progress being made towards meeting the Agency's 'vision'.

2.3.9 Audit and Risk Committee

The Management Advisory Board is supported by an Audit and Risk Committee, which comprises three non-executive members of the Board. During the year, it met on four scheduled occasions and also on 21 May 2018 to consider the Altair Programme business case.

The Committee's work has included:

- reviewing the Agency's risks and risk management processes to provide assurance in an Annual Report to the Accountable Officer and Management Advisory Board
- directing the work of Internal Audit, receiving progress updates and an Annual Assurance Statement
- receiving progress reports from Internal Audit and receiving the conclusions of its work
- reviewing Audit Scotland's Annual Audit Plan and cross-cutting reports where appropriate
- receiving reports from the Agency's senior management on: finance, procurement, and governance; counter fraud initiatives; security breaches; health and safety reportable incidents; business continuity; and risk and internal controls
- reviewing the Agency's budget and out-turn position alongside financial performance against key metrics
- reviewing the Agency's Annual Report and Accounts and Scottish Teachers' Pension Scheme and NHS Pension Scheme Scotland's Annual Report and Accounts
- receiving an Audit Scotland Interim Management Letter and Annual Audit Report including an ISA 260 report
- receiving a quarterly Risk Management and Governance minute from the Chief Financial Officer containing inter alia:
 - latest versions of the Corporate Risk Register incorporating changes made by the Risk Governance Group and Strategic Leadership Team
 - latest 'Assurance Map' linking Key Outcomes to Key Risks and to levels of assurance i.e. internal, external and independent third party sources
 - independent third party reports where applicable e.g. technical assurance 'healthcheck'
 - 'deep dives' on key risks to the Agency's business from respective parts of the Agency
 - Committee performance self-assessment
- reviewing and tracking all recommendations emerging from reports produced by external audit (Audit Scotland) and internal audit (Scottish Government Internal Audit Directorate)
- horizon scanning to inform future committee business.

2.3.10 Altair Programme Board

The Agency set up a formal board for the Altair Programme at the point a contract variation was signed with its pension software provider in July 2018. From August 2018, monthly meetings took place with representation from both customer and supplier. The Board is chaired by the Senior Responsible Officer for the programme and comprises relevant senior SPPA management in specific project roles (senior customer, etc.) and representatives of the strategic supplier (customer account manager, etc). An experienced non-executive pension board member attends meetings to act as a 'critical friend'.

The Programme aims to replace three existing software systems with a single integrated multi-scheme pension administration and payroll solution, including web-based member and employer services. Initially, it is also aiming to improve and enhance the existing Altair system and support continuous improvement in the administration of the NHS and Teachers' schemes.

Programme Board meetings ensure appropriate governance is in place to facilitate a successful implementation of the new system. Summary progress reports were considered by the Management Advisory Board and risk, governance and control issues by the Audit and Risk Committee.

Given the significant challenges SPPA has encountered in delivering business continuity and service improvements to pensions administration and payroll services and the findings of four previous Technical Assurance reviews undertaken, it was agreed by all parties that a focused independent 'healthcheck' should be undertaken on the new programme. The 'healthcheck' carried out by the Scottish Government's Office of the Chief Information Officer reviewed the progress of the Programme as at January 2019. A total of 15 recommendations (13 'critical' and 2 'essential') were made by the review team and were accepted by management for implementation. A follow-up review in May 2019 concluded that 7 recommendations could be 'closed' and concluded that SPPA was in a much more 'robust' position than at the time of the January 2019 'healthcheck' review.

2.3.11 Pension and Scheme Advisory Boards

SPPA assumes the day-to-day role of Scheme Manager as set out in the Public Service Pensions Act 2013 (the PSP Act) for Scotland's NHS, Teachers', Police and Firefighters' pension schemes, as delegated by Scottish Ministers. It should be noted, though, that from a financial perspective for the Police and Firefighters' schemes, 'administration' includes the provision of financial services but not contribution collection, preparation of annual accounts, budget or financial management.

The Agency's policy function also acted as the key policy adviser and custodian of scheme regulations for the four schemes administered nationally by the Agency (as above) and for the locally managed Local Government Pension Scheme (LGPS).

During the year SPPA policy officials:

- supported Scotland's statutory NHS, Teachers', Police and Firefighters' Pension Boards which assist the Scheme Manager of those schemes in securing compliance with regulatory requirements
- provided ad hoc secretariat services to and attending the NHS, Teachers', Police and Firefighters' Pension Boards
- participated in and provided general and technical pensions policy advice to the tri-partite Scheme Advisory Boards for the Police, Firefighters', NHS and Teachers' Scheme Advisory Boards and in the case of the Police and Firefighters' Scheme Advisory Boards provided the Chair at meetings
- provided training, guidance and advice to the Police, Firefighters', NHS and Teachers' Scheme Advisory Boards to allow the results of the 2016 valuation to be implemented and cost cap rectification recommendations to be made
- represented the Scottish Government as observers on and providing general and technical pensions policy advice to the bi-partite LGPS Scheme Advisory Board.

In line with a Scottish Government commitment made during the 2015 pension reforms, the Agency completed the review of the effectiveness of the scheme governance arrangements by putting into effect the outstanding agreed recommendations included in the review carried out by independent consultants.

2.3.12 Data assurance

An undertaking to report 'serious' breaches to the Scottish Government's Office of Protective Security is outlined within a Memorandum of Understanding and agreed with Scottish Ministers. During the reporting period, the Agency further improved its processes concerning personal data breach management. The Agency records and reports any breach to the Audit and Risk Committee even if escalation to the Scottish Government is not warranted under the Memorandum.

During 2018-19, 25 'minor' security breaches were reported internally to the Head of Security an increase of 14 on 2017-18. Of the reportable breaches, 2 were categorised as serious (i.e. 'those that will cause harm or reputational damage) and were therefore referred to Information Commissioner's Office (refer to para. 2.1.3 for further details). The current reporting procedure completed its first full year and it is likely that an increasing awareness of data protection brought about by the implementation of GDPR in May 2018 and refreshed knowledge of reporting procedures will have contributed to the reported increase in the number of cases. A step-by-step guide to handling breaches is available on the staff intranet and is also included within the Business Continuity Plan. It is designed to give full consideration to the consequences of the breach in order to minimise harm to the data subject and to put in place the appropriate corrective measures.

'Cyber Essentials' accreditation was achieved in June 2018 and must be renewed on an annual basis. The accreditation process helps organisations mitigate the risk of data losses and breaches by exposing potential cyber security flaws. There is an expectation placed upon all 'Cyber Catalyst' organisations to progress to 'Cyber Essentials Plus' status in due course.

2.3.13 Information assurance

Staff are reminded through the Agency's Information Management Strategy that it is their responsibility to know where information is held, how to retrieve it and to understand what can be shared. The Agency provides staff with appropriate training and guidance to enforce compliance with standards in the protection of information assets to enable the organisation to function more effectively, safely and securely.

The Agency's Information Assurance Framework documents evidence the actions, procedures and policies undertaken by the Agency to meet the standards and best practice guidelines set out by the HMG Security Policy Framework. This forms part of SPPA's strategic approach to Information Assurance. The annual assessment carried out in December 2018 demonstrated the Agency achieved a steady state. Using the Red/Amber/Green traffic light system there were 21 categories at green (2017:21 and 2016:19) and 9 at amber (2017:9 amber and 2016:10 amber and 1 red).

2.3.14 Business continuity

Each year SPPA undertakes a test of Business Continuity. A hardcopy version of the comprehensive Business Continuity Plan is held off-site by all Directors and by members of the disaster recovery team. Key findings are fed back to the SLT and changes are made to the Plan in the light of lessons learned.

In order to draw upon wider expertise and enhance the standard desk top test approach, a facilitated incident response training session was delivered in October 2018. Training was centred around the 'Preparing Scotland' guidance on resilience following the Operational (Bronze), Tactical (Silver) and Strategic (Gold) incident management structure.

2.3.15 External Audit

The governance and transparency in operation and the effectiveness of the risk and control framework is informed by comments made by Audit Scotland in letters to management and other reports shared with members of the Audit & Risk Committee. These include the annual report to the Scottish Public Pensions Agency and to the Auditor General for Scotland.

On the 4 October 2018 Audit Scotland laid a report to the Scottish Parliament under s22(3) of the Public Finance and Accountability (Scotland) Act 2000. The purpose of the report was to draw Parliament's attention to problems SPPA had implementing a major new IT system and the financial implications of the delays. In the report it was acknowledged that some of the audit findings could not be reported for commercial reasons and it was made clear that a further report would be issued after any legal proceedings had concluded in 2019-20. The subsequent s23 report issued on 25 June 2019 and its findings will be considered by the Parliamentary Public Audit and Post-legislative Scrutiny committee in the autumn.

2.3.16 Internal Audit

The Agency directs the work of Internal Audit, informed by the Agency's Risk Registers, its Assurance Map and by an audit needs assessment undertaken by the audit team. Reports are received and reviewed by the Audit and Risk Committee, which also receives reports from management on the progress in implementing the recommendations of audit, both internal and external.

During the year, Internal Audit finalised or is in the process of finalising reviews of:

- benefits statements ('reasonable' assurance)
- data quality and records management ('reasonable' assurance)
- workforce planning and culture ('limited' assurance)
- follow up activity on previous audits (i.e. the 'ability to deliver business as usual' and 'pension board governance').

An internal audit review cutting across Scottish Government reported on application of the General Data Protection Regulation. There were three low level recommendations which were either in the current workplan or were already in train.

Internal Audit have provided the Accountable Officer with an overall 'reasonable' assurance opinion for 2018-19 on the risk management, internal control and standards of governance applied across the Agency.

Internal Audit is subject to periodic external and internal quality assessment. A review was conducted early in 2019 and evaluated Internal Audit's conformance with Public Sector Internal Audit Standards. It also takes the opportunity to identify areas for improvement.

2.3.17 Internal controls

The Agency operates a comprehensive system of internal controls, designed to safeguard its assets and to ensure the reliability of financial records. The systems are subject to regular review by Internal Audit, and reports are made available to the Audit and Risk Committee. The internal controls include financial delegations and policies include those on counter fraud and corruption, bribery and whistle-blowing, which are approved by the SLT and reviewed by the Audit and Risk Committee. Reportable breaches of health and safety and data security were reported to the Audit and Risk Committee at meetings throughout the reporting year. An internal report on payment controls was also issued to members following a duplicate transfer of funds to an external provider. The report contained a retrospective look at all payments over £5,000 over a 5-year period and contained a suite of internal controls, including preventative controls, to mitigate the risk of reoccurrence.

2.3.18 Reliance on experts

The Agency relies on the work of experts. This includes taking advice from the Government Actuary's Department on matters including, but not limited to, the annual assessment of the value of pension liabilities. The District Valuer periodically reviews the Agency's premises, the last of which was carried out as at 31 March 2018 and reflected in the 2017-18 annual accounts.

2.3.19 Risk management

During the reporting year, the Agency followed a process of assessing risk at four levels. Individual directorates and project teams initially considered risk at an operational level through the year. The results of this work formed one plank of the work carried out at the second level by the Risk Governance Group. The identification of risks and associated controls emerging from audit review reports, business planning sessions and the strategic away-day were also taken into account by the Group.

The Group convened meetings on at least 8 occasions at which senior members of staff in each directorate surveyed pension scheme and agency-wide risks in more detail. On all of these occasions a non-executive member with a background in risk was present and minutes were shared with the Audit and Risk Committee and all four Pension Boards. A range of tools and techniques were employed to ensure all risks were considered in detail e.g. key risk 'deep dives' and more broadly e.g. risk 'heat maps'.

Once changes were made to the risk registers, consideration was given to the revisions made at a third level by the SLT. Consideration involved assessing risks in the operational and wider political, economic, social, technological, legal, environmental context whilst also taking account of the Agency's risk appetite.

There was no change made to the risk appetite statement during the year. Once the internal bottom-up and top-down processes were complete, the Corporate Risk Register was shared with the Audit and Risk Committee on a quarterly basis for non-executive member review. Similarly, the pension scheme risk registers were shared with Pension Boards on a quarterly basis with a further emphasis in the narrative on the impact of risk on the Agency's customers. The registers are used primarily as a tool in managing and mitigating the Agency's short, medium and long-term risks.

The Agency's top 13 risks for the period:

1. Obtaining a sustainable funding stream sufficient to meet recurring expenditure and service investment needs.
2. Successful delivery of the TOM and Workforce Plan with minimal disruption to core business and providing a sound foundation for the achievement of the Agency's vision and meeting stakeholders' expectations.
3. Timely and accurate delivery of 'Guaranteed Minimum Pension' scheme administration and management responsibilities without detriment to business as usual.
4. Successful delivery of Annual Benefit Statements for four pension schemes to time and quality required. Overall effect of outcome on SPPA reputation amongst stakeholder groups.
5. Delivery of specific annual Customer Services Directorate business as usual (statutory, regulatory and other) tasks for four schemes to quality and time. For example: annual allowance exercise (AA); annual pensions increase (API); annual benefit statements (ABS); Teachers peak retiral season; backdated pay awards.
6. Successful implementation of 'Altair Programme' (integrated pension admin and payroll system and digital customer services) with minimal disruption to core business. Overall effect of adverse outcome on reputation amongst stakeholder groups.
7. Ability to maintain business continuity and uninterrupted service provision in the event of a known or unknown threat materialising.
8. Ensuring the right people, with right knowledge, skills, experience and behaviours are in the right place at the right time.
9. Effective management of external suppliers.
10. Compliance with regulation and legislation in respect to information assurance. Overall effect of outcome on SPPA reputation amongst stakeholder groups.
11. Compliance with The Pension Regulator Code of Practice 14 and meeting service expectations of key stakeholders, including the Pensions Regulator, Pension Boards, scheme employers and customers. Overall effect of outcome on SPPA reputation amongst stakeholder groups.
12. Technology and customer data and services compromised and/or vulnerable to 3rd party attack on business systems and/or potential fine imposed by Information Commissioner. Overall effect of outcome on SPPA reputation amongst stakeholder groups.

Towards the year end, a further key risk was added to the Corporate Risk Register:

13. Changes arising from the implementation of the agreed remedy action for the McCloud/Sargeant Court of Appeal case.

For each of the above the Agency reviewed its internal controls and identified actions to bring risk assessments down to a targeted level of acceptable residual risk based on the Agency's declared risk appetite. The threats which materialised and identified above were addressed by pre-determined compensating internal controls aimed at mitigating risk to the business area. All actions during the year were time-bound and reported upon to the Audit and Risk Committee. Risk management arrangements in operation are considered to comply with generally accepted best practice principles and relevant guidance.

2.3.20 Best value

The Accountable Officer has a duty to secure Best Value in the services the Agency provides. Best Value principles are embedded in the Agency's planning, governance and business decision arrangements. For instance, staff fully participate in the annual business planning process and output from events is compiled and communicated to staff through formal and informal communication channels. Minutes of Management Advisory Board and Pension Boards are uploaded onto the SPPA website for public inspection.

The Agency uses a range of mechanisms to obtain feedback from its customers and stakeholders. Market intelligence and research is received from Pension Boards, targeted groups (e.g. Retired Police Officers Association Scotland), desk-top research, data including comments routinely gathered on customer service from surveys and complaint feedback supports a user-centred approach. Single event and continuous customer satisfaction surveys act together to provide event driven and more real-time feedback on services and service levels provided. Though take-up rates remain an issue, this information is utilised by directorates to look at opportunities to improve service delivery.

For a number of years the Agency has taken part in an independent, international benchmarking programme. Operated by CEM benchmarking on a commercial basis, this compares the Agency's quality and costs of service across a range of activities common to comparable pensions administration organisations in the UK and wider afield. The results of the 2018 CEM benchmarking survey are provided at paragraph 1.5.12.

The Agency continues to participate in the 'Investors in People' accreditation programme. The Agency first achieved 'Gold' status in 2012 and which was most recently reconfirmed in January 2017. The Agency will subject to a new set of standards (the sixth generation) going forward and will seek to retain its status at the next full assessment in January 2020.

A Partnership Agreement is in place between the Agency and the Trades union to encourage participation in joint decision-making processes. Working as partners to reach mutually acceptable arrangements the intention is to benefit staff and ensure the effective running of the Agency. In addition to the Partnership Agreement, the Agency set up a Staff Consultative Group in advance of work on the TOM and this participative approach has worked well during the delivery phase with good representation across staff grades.

In October 2018, the Agency participated in a UK Government-led annual staff survey for civil servants which identified a staff engagement level of 54% (2017-18 55% and 2016-17: 54%) based on an 82% response rate. In response to the results, the Agency carried out a number of initiatives to improve leadership, manage change and improve resources and workload with progress being reported through All-Staff sessions. The Agency continues to implement its communication strategy and seek new forums in which to involve staff as a sounding board for, and a source of, new ideas to improve staff engagement.

2.3.21 Written assurances provided to the Chief Executive

The Chief Executive has received written assurances from all Directors about the operation and effectiveness of internal controls in the areas for which they are responsible. Additionally, the Chief Executive has received assurance from the Scottish Government's Director General Organisational Development and Operations in respect of the Scottish Government's human resources, payroll and financial systems that are shared with the Agency.

2.4 Remuneration report

2.4.1 Remuneration policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

In reaching its recommendations, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities
- regional/local variations in labour markets and their effects on the recruitment and retention of staff

- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services
- the funds available to departments as set out in the Government's departmental expenditure limits
- the Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review Body can be found at www.ome.uk.com.

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated below, the officials covered by this report hold appointments, which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commission can be found at <http://civilservicecommission.independent.gov.uk/>.

2.4.2 Remuneration disclosure

2.4.2.1 Non-Executive Directors (audited information)

The non-executive directors are not salaried, but received the following in fees and expenses in connection with their duties:

	2018-19	2017-18
	£000	£000
Sheena Cowan	0-5	0-5
Ian Forbes (from February 2018)	0-5	0-5
Liz Holmes	0-5	0-5
Jane Malcolm (from February 2018)	0-5	0-5
Stuart Smith (to March 2019)	5-10	10-15
Gillian Thompson (to March 2019)	0-5	10-15
Gordon Wales (from July 2017)	0-5	0-5
Eleanor Ryan (to July 2017)	n/a	0-5

2.4.2.2 Strategic Leadership Team (audited information)

The following sections provide details of the remuneration and pension entitlements of the Strategic Leadership Team of the Agency.

Name and Title	2018-19			2017-18		
	Salary	Pension benefits	Total	Salary	Pension benefits	Total
	£000	£000	£000	£000	£000	£000
Penelope Cooper, Chief Executive (from 3 July 2017)	80-85	33	115-120	60-65 (part year salary, 80-85 full year equivalent)	24	85-90
Chad Dawtry, Interim Chief Executive and Accountable Officer (1 April 2017 to 2 July 2017), and Deputy Chief Executive (3 July 2017 to 25 August 2017)	n/a	n/a	n/a	30-35 (part year salary, 70-75 full year equivalent)	11	40-45
Pamela Brown, Head of Operations Transformation (to 12 February 2018)	n/a	n/a	n/a	60-65 (part year salary, 70-75 full year equivalent)	6	65-70
Ian Waugh, Chief Financial Officer	65-70	44	110-115	60-65	23	85-90
Marion Chapman, Director of Corporate Services*	55-60	36	91-95	60-65	26	85-90
Carole Johnston, Temporary Head of Customer Services (from 20 August 2018)**	55-60 (part year, 85-90 full year equivalent)	n/a	55-60	n/a	n/a	n/a
Eleanor Guthrie, Interim Head of Customer Services (to 31 May 2018)	10-15 (part year salary, 60-65 full year equivalent)	6	65-70	65-70	26	90-95
Lorimer Mackenzie, Interim Policy Director	75-80	25	100-105	75-80 (restated)	4	80-85 (restated)
Sally Paterson, Head of People Services (from 1 April 2018)	45-50	22	65-70	n/a	n/a	n/a
Tony Bayliss, Temporary Director of Digital Transformation (to 31 October 2018)***	50-55 (part year salary, 95-100 full year salary)	n/a	50-55	95-100	n/a	95-100
Philip Heywood, Temporary Director of Business Evolution (from 4 March 2019)**	10-15 (part year salary, 185-190 full year equivalent)	n/a	10-15	n/a	n/a	n/a
Jeanette Innes Temporary Head of Governance (from 27 November 2017 to 21 December 2018)**	50-55 (part year, 80-85 full year equivalent)	n/a	50-55	20-25 (part year, 55-60 full year equivalent)	n/a	20-25

*A payment of £35,000 in respect of voluntary retirement was made to Marion Chapman who left the organisation on 6 April 2019. This is not included in the salary total stated in the above table.

**Temporary agency staff with the salary stated being the invoiced value including VAT.

***Seconded from a public sector organisation and is not a member of the Civil Service Pension Scheme. The salary stated represents the invoiced value (including VAT) but excluding employer national insurance, pension contributions and travel expenses.

No director received any bonus payments or benefits in kind during the year ended 31 March 2019.

The pay of the Chief Executive, as a member of the Senior Civil Service, is set by the Cabinet Office. SPPA does not have a separate performance pay scheme for senior managers, but applies the Scottish Government-wide remuneration policy equally to all staff including senior management. Total remuneration includes gross salary; overtime; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the Agency and thus recorded in these accounts.

In accordance with the Government Financial Reporting Manual (FReM), reporting bodies are required to disclose the relationship between the remuneration of the highest paid member of the Senior Leadership Team and the median remuneration of the organisation's workforce. The median calculation includes directly employed staff paid through the Agency's payroll, and covers both permanent staff and those on fixed term contracts. It does not include temporary agency staff paid by invoice. The ratio is calculated as the mid-point of the highest band divided by the median total remuneration. The banded remuneration of the highest paid permanent director in the SPPA in the financial year 2018-19 was £80k-£85k (2017-18: £80k-£85k). This was 4.0 times (2017-18: 4.1) the median remuneration of the workforce, which was £20,732 (2017-18: £20,011). Staff remuneration across SPPA ranged from £5k-£10k (reflecting part-time working patterns) to £80-85k (2017-18: £5k-£10k to £80k-£85k).

2.4.2.3 Pension benefits (audited information)

Name and title	Real increase/ (decrease) in pension and lump sum at pension age £000	Total accrued pension at pension age as at 31 March 19 and related lump sum £000	CETV at 31 March 19	CETV at 31 March 18*	Real increase/ (decrease) in CETV £000
			£000	£000	
Penelope Cooper, Chief Executive (from 3 July 2017)	0-2.5 plus 0-2.5 lump sum	0-5 plus 0-5 lump sum	48	19	21
Ian Waugh, Chief Financial Officer	2.5-5 and 5-7.5 lump sum	20-25 plus 65-70 lump sum	575	482	48
Marion Chapman, Director of Corporate Services	0-2.5 and 5-7.5 lump sum	25-30 plus 75-80 lump sum	572	487	36
Eleanor Guthrie, Interim Head of Customer Services (to 31 May 2018)	0-2.5 plus 0-2.5 lump sum	10-15 plus 0-5 lump sum	208	203	3
Lorimer Mackenzie, Interim Policy Director	0-2.5 and 0-2.5 lump sum	35-40 plus 0-5 lump sum	818	718	26
Sally Paterson, Head of People Services (from 1 April 2018)	0-2.5 and 0-2.5 lump sum	10-15 plus 30-35 lump sum	247	205	12

*The figure may be different from the closing figure in last year's accounts. This is due to the cash equivalent transfer value (CETV) factors being updated to comply with The Operational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

There are many reasons that could cause a decrease in the real increase in CETV including:

- if a rise in pensionable salary is less than the rate of inflation
- if someone joined or left mid-year
- the pension factors for the over 60s decrease the value of the pension that could have been taken at 60.

2.4.2.4 Civil Service Pension Scheme

Background

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or **alpha**, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date, all newly appointed civil servants and the majority of those already in service joined **alpha**. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: three providing benefits on a final salary basis (**classic**, **premium** or **classic plus**) with a normal pension age of 60; and one providing benefits on a whole career basis (**nuvos**) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus**, **nuvos** and **alpha** are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into **alpha** sometime between 1 June 2015 and 1 February 2022. All members who switch to **alpha** have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave **alpha**. The pension figures quoted for officials show pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are salary-related and range between 4.6% and 8.05% of pensionable earnings for members of **classic**, **premium**, **classic plus**, **nuvos** and **alpha**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in **alpha** build up in a similar way to **nuvos**, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus**, 65 for members of **nuvos**, and the higher of 65 or State Pension Age for members of **alpha**. The pension figures quoted for officials show pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk

Cash equivalent transfer values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement, which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer as a result of salary changes and service. It does not include the increase in accrued pension due to inflation, and contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement). It is worked out using common market valuation factors for the start and end of the period.

2.5 Staff report

2.5.1 Staff numbers, costs and pensions (audited information)

Administration costs	2018-19	2017-18
	£000	£000
Wages and salaries	7,767	7,385
Social security costs	676	652
Other pension costs	1,457	1,416
Agency staff costs	468	424
Total administration staff costs	10,368	9,877

Average number of full time equivalent persons employed	2018-19			2017-18		
	Female	Male	Total	Female	Male	Total
Senior civil servant	1	0	1	1	0	1
Senior management	1	2	3	3	2	5
Other permanent staff	146	135	281	144	128	272
Fixed term appointments	0	0	0	3	2	5
Agency staff	6	2	8	3	2	5
	154	139	293	154	134	288
Included in the numbers above						
Number of staff on capital projects			3			0

The PCSPS and **alpha** are unfunded multi-employer defined benefit schemes. SPPA is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2016. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (<http://www.civilservicepensionscheme.org.uk>).

For 2018-19, employers' contributions of £1,450k were payable to the PCSPS/**alpha** (2017-18: £1,409k) at one of four rates in the range 20% to 24.5% (2017-18: 20% to 24.5%) of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every 4 years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2018-19 to be paid when a member retires, and not the benefits paid during this period to existing pensioners.

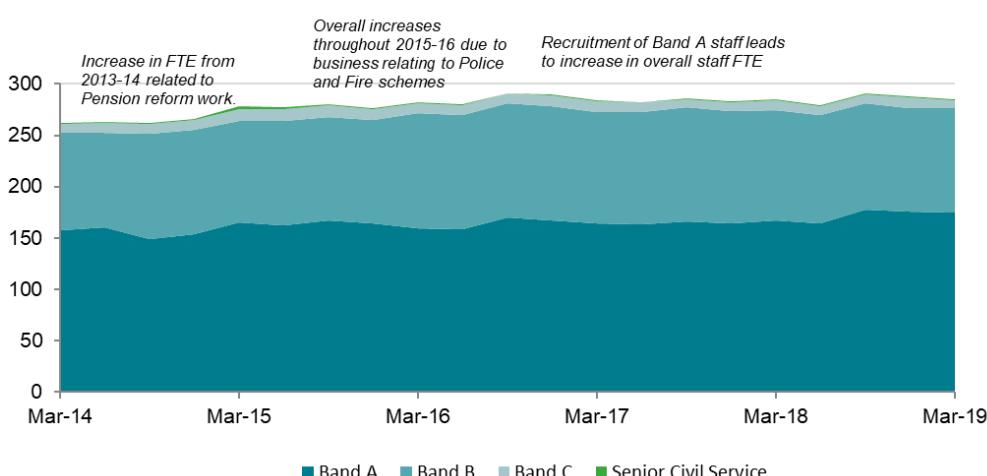
As stated at paragraph 2.4.2.5 above, employees can opt to open a partnership pension account, or a stakeholder pension with an employer contribution. Contributions paid by the Agency in 2018-19 were £7k (2017-18: £7k).

2.5.2 Staffing

Staff turnover for 2018-19 was 6.6% equating to 19 FTE members of staff (2017-18: 4.2% equating to 12 FTEs). Included within staff turnover were eight members of staff who left the Agency to join other Scottish Government departments and five retirements.

Chart 9

Permanent and fixed-term SPPA staff (FTE), by pay band
Mar-2014 to Mar-2019



2.5.3 Employee recruitment

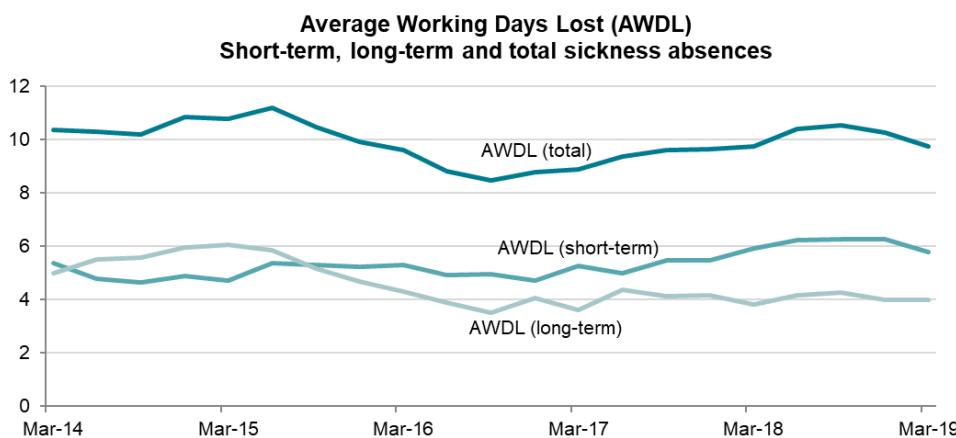
Recruitment and promotion campaigns undertaken by the Agency were carried out on the basis of fair and open competition, selection on merit and in accordance with Scottish Government guidance. The Agency recruited 20 pension administrators during the year. The Agency has been fortunate to have a member of

staff joining from the Civil Service Fast Stream Programme, which aims to develop young people into Senior Civil Service roles.

2.5.4 Sickness absence management

The Agency's HR team monitors attendance management and supports managers in applying the Scottish Government attendance management policy. Staff awareness sessions were held to ensure a consistent approach. The total average working days lost in 2018-19 was 9.8 per member of staff (2017-18: 9.7) compared to the SG figure of 7.6. The HR team is providing support and advice to ensure early intervention and encourage those coming back from long term sick leave to return on part time medical grounds.

Chart 10



2.5.5 Employees with disabilities

The Agency complies with the Scottish Government's Civil Service Code of Practice on the employment of people with disabilities and is an Employment Services disability symbol user. The code of practice aims to ensure that there is no discrimination on the grounds of disability and that access to employment and career advancement with the Agency is based solely on ability, qualifications and suitability for the work. There are a number of staff with disabilities who continue to be supported in confidence.

2.5.6 Reporting of Civil Service and other compensation schemes – exit packages (audited information)

Number and cost of exit packages		
Exit packages	No of departures agreed 2018-19	No of departures agreed 2017-18
Cost band		
£25,000-£50,000	1	0
£50,000-£100,000	1	0
Total number of exit packages	2	0
Total cost of exit packages	£130,000	£0

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in the year that departure is agreed. Where the Agency has agreed early retirements, the additional costs are met by the Agency and not by the Civil Service Pension Scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

There were no compulsory redundancies in 2018-19 or in the prior year.

2.5.7 Trade Union facility time disclosures

The Trade Union (Facility Time Publication Requirements) Regulations 2017 require employers in the public sector to publish information on facility time. Facility time is the provision of paid or unpaid time off from an employee's normal role to undertake trade union duties and activities as a trade union representative.

The Agency had three (FTE employees: three) employees who were trade union officials during the year to March 2019 (2017-18: two employees equating to a FTE of two). These employees spent between 1-50% (2017-18: 1-50%) of working hours on facility time. The percentage of the Agency's total pay bill spent on paying employees who were relevant trade union officials for facility time during the relevant period was 0.10% (2017-18: 0.03%). Time spent on paid trade union activities as a percentage of total paid facility time hours was 100% (2017-18: 100%).

2.6 Parliamentary accountability report

2.6.1 Losses and special payments

There were no material losses or special payments incurred in the year to 31 March 2019.

2.6.2 Fees and charges

Information on fees and charges raised during the year are provided at note 5 to the Financial statements.

2.6.3 Remote contingent liabilities

There were no remote contingent liabilities to report as at 31 March 2019.



Penelope Cooper
Chief Executive
22 July 2019

2.6.4 Independent auditor's report to the Scottish Public Pensions Agency, the Auditor General for Scotland and the Scottish Parliament

Report on the audit of the financial statements

Opinion on financial statements

I have audited the financial statements in the annual report and accounts of the Scottish Public Pensions Agency for the year ended 31 March 2019 under the Public Finance and Accountability (Scotland) Act 2000. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2018/19 Government Financial Reporting Manual (the 2018/19 FReM).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2019 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 FReM; and
- have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Auditor General for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Auditor General on 18th July 2016. The period of total uninterrupted appointment is three years. I am independent of the body in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the body. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the body has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

I have reported in a separate Annual Audit Report, which is available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Accountable Officer for the financial statements

As explained more fully in the Statement of the Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accountable Officer is responsible for using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. I therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual report and accounts

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration and Staff Report, and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on regularity of expenditure and income

Opinion on regularity

In my opinion in all material respects:

- the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers, the Budget (Scotland) Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000; and
- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.

Responsibilities for regularity

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. I am responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Report on other requirements

Opinions on matters prescribed by the Auditor General for Scotland

In my opinion, the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

In my opinion, based on the work undertaken in the course of the audit

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

Matters on which I am required to report by exception

I am required by the Auditor General for Scotland to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual report and accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.



Stephen Boyle FCPFA
Audit Director
Audit Scotland
4th Floor
8 Nelson Mandela Place
Glasgow
G2 1BT

23 July 2019

Scottish Public Pensions Agency

Financial statements 2018-19

Scottish Public Pensions Agency

Statement of comprehensive net expenditure for the year ended 31 March 2019

	Note	2018-19 £000	2017-18 £000
Staff costs	2	10,368	9,877
Other admin costs	3	6,081	5,924
Depreciation	7,8	950	837
Write off of intangible non-current assets	4	0	1,621
Total operating costs		17,399	18,259
 Operating income	5	(227)	(214)
Other income	6	(700)	0
Net operating costs		16,472	18,045
 Other comprehensive expenditure			
Net (gain)/loss on revaluation of property, plant & equipment	7	(108)	(306)
Total comprehensive expenditure for the year		16,364	17,739

The above results relate to continuing activities.

The notes on pages 54 to 62 form part of these financial statements.

Scottish Public Pensions Agency

Statement of financial position as at 31 March 2019

	Note	2018-19 £000	2017-18 £000
Non-current assets			
Tangible non-current assets	7	4,964	5,030
Intangible assets	8	3,257	1,060
Total non-current assets		8,221	6,090
Current assets			
Trade and other receivables	9.1	13,579	19,309
Total current assets		13,579	19,309
Total assets		21,800	25,399
Current liabilities			
Trade and other payables	10.1	(8,710)	(8,116)
Provisions for liabilities and charges	11	(367)	0
Total current liabilities		(9,077)	(8,116)
Total assets less current liabilities		12,723	17,283
Non-current liabilities			
Trade and other payables	10.3	(5)	(11)
Total non-current liabilities		(5)	(11)
Net assets/(liabilities)		12,718	17,272
Taxpayers equity and other reserves			
General fund		11,959	16,621
Revaluation reserve		759	651
Total taxpayers equity		12,718	17,272

The notes on pages 54 to 62 form part of these financial statements.



Penelope Cooper
Chief Executive
22 July 2019

Scottish Public Pensions Agency

Statement of cash flows for the year ended 31 March 2019

	Note	2018-19 £000	2017-18 £000
Cash flows from operating activities			
Net operating cost		(16,472)	(18,045)
Adjustments for non cash transactions			
Depreciation	7,8	950	837
Write off of intangible non-current assets	4	0	1,621
Notional costs for services provided	3.3	278	286
Movements in working capital			
(Increase)/decrease in trade and other receivables	9	5,730	(2,845)
Increase/(decrease) in trade and other payables	10	593	(679)
(Increase)/decrease in property, plant and equipment trade and other payables	10	(2)	7
(Increase)/decrease in intangible asset trade and other payables	10	(454)	410
Increase/(decrease) in provisions	11	367	0
Net cash outflow from operating activities		(9,010)	(18,408)
Cash flows from investing activities			
Purchase of tangible non-current assets	7	(139)	(122)
Increase/(decrease) in property, plant and equipment trade and other payables	10	2	(7)
Purchase of intangible assets	8	(2,834)	(506)
Increase/(decrease) in intangible asset trade and other payables	10	454	(410)
Impairment of intangible fixed assets – write-off of work in progress creditor	4	0	373
Net cash outflow from investing activities		(2,517)	(672)
Capital element of finance lease payments		(5)	(5)
Net funding - Agency		16,312	15,961
Net funding - pension payments on behalf of Scottish police and fire services		(4,780)	3,124
Total net financing		11,527	19,080
Increase/(decrease) in cash and cash equivalents		0	0

The notes on pages 54 to 62 form part of these financial statements.

Scottish Public Pensions Agency

Statement of changes in taxpayers' equity for the year ended 31 March 2019

	Note	General Fund £000	Revaluation Reserve £000	Total Reserves £000
Balance at 31 March 2018		16,621	651	17,272
Net gain/(loss) on revaluation of tangible non-current assets	7	0	108	108
Non cash charges - SG services	3.3	125	0	278
Non cash charges - Auditors remuneration	3.3	153	0	0
Net operating cost for the year		(16,472)	0	(16,472)
Net funding		11,532	0	11,532
Balance at 31 March 2019		11,959	759	12,718

for the year ended 31 March 2018

	Note	General Fund £000	Revaluation Reserve £000	Total Reserves £000
Balance at 31 March 2017		15,295	345	15,640
Net gain/(loss) on revaluation of tangible non-current assets	7	0	306	306
Non cash charges - SG services	3.3	137	0	137
Non cash charges - Auditors remuneration	3.3	149	0	149
Net operating cost for the year		(18,045)	0	(18,045)
Net funding		19,085	0	19,085
Balance at 31 March 2018		16,621	651	17,272

The notes on pages 54 to 62 form part of these financial statements.

Scottish Public Pensions Agency

Notes to the accounts

For the year ended 31 March 2019

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2018-19 Government Financial Reporting Manual (FReM). The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

The accounts are prepared using accounting policies, and, where necessary, estimation techniques, which are selected as the most appropriate for the purpose of giving a true and fair view in accordance with the principles set out in International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors. Changes in accounting policies, which do not give rise to a prior year adjustment, are reported in the relevant note.

The particular policies adopted by the Agency are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

Impending application of newly issued/amended accounting standards not yet effective

A number of new accounting standards have been issued or amendments made to existing standards, but do not come in to force until future accounting periods and therefore are not yet applied to these financial statements. The standard that is considered relevant to the Agency and the anticipated impact on the accounts is as follows:

IFRS 16 – Leases

The adoption of this standard will eliminate the operating lease category for the majority of leases. Instead, assets and liabilities will be recognised on a 'right of use' basis. It will supersede the existing IAS 17, but won't come into effect for the Agency until the financial year 2020-21. The extent to which this new standard will apply to the public sector is currently being considered by the Financial Reporting Advisory Board.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, equipment and intangible assets by reference to their current costs.

1.2 Property, plant and equipment

The land and buildings at Tweedbank were valued as at 31 March 2018 by the District Valuer Services of the Valuation Office Agency in the capacity of External Valuers using the Depreciated Replacement Cost method. The valuation was undertaken in accordance with IFRS standards, the FReM, and RICS Valuation Professional Standards. A professional revaluation of the property will be undertaken at least every five years, and appropriate indices used to restate the values in the intervening years. During intervening years, any minor additions have been reported at depreciated historic cost as a proxy for fair value.

Upwards movements in value are taken to the revaluation reserve. Downward movements are set off against any credit balance held in the revaluation reserve until the credit is exhausted and thereafter charged to the statement of comprehensive net expenditure.

Depreciated historic cost has been used as a proxy for the fair value of furniture and fittings, equipment, and information technology systems. All of the assets in these categories have short useful economic lives, which realistically reflect the life of the asset and a depreciation charge, which provides a realistic reflection of consumption. The minimum level for capitalisation of property, plant and equipment is £1,000.

1.3 Depreciation

Depreciation is provided on tangible non-current assets from the year they are brought into service. Rates are calculated to write off their valuation evenly over expected useful lives normally in the following ranges:

Buildings	31 years (valuation as at 31 March 2018)
Furniture and fittings	3 to 20 years
Equipment	5 to 10 years
Information technology	3 to 7 years

The useful economic life of individual assets is reviewed annually and the asset life adjusted accordingly. Land is considered to have an indefinite life and is not depreciated.

1.4 Intangible assets

Assets have been recognised as intangible non-current assets as per IAS 38.

Purchased computer software is capitalised as an intangible asset where expenditure is greater than £1,000 or where the pooled value exceeds £1,000. All purchased software licences with a term greater than one year are capitalised as intangible assets. Software and software licences are amortised over the shorter of the term of the licence and the useful economic life. The amortisation period is over 1 to 5 years. Intangible assets under development are not amortised.

The useful economic life of individual assets is reviewed annually and the asset life adjusted accordingly.

Development expenditure is the capitalised costs of IT systems being developed but not yet available for use.

1.5 Financial instruments

All financial assets held by the SPPA have been classified as trade receivable, prepayments and accrued income, and cash measured at amortised cost, using the effective interest method.

As the cash requirements of the Scottish Public Pensions Agency are met through the Scottish Government, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with the Agency's expected purchase and usage requirement; the Agency is therefore exposed to little credit, liquidity or market risk.

1.6 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is a defined benefit scheme and is unfunded. The Agency recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis (further disclosures are included in paragraph 2.5.1 of the Staff report). Liability for payment of future benefits is a charge on the PCSPS. Separate scheme statements are published for the PCSPS as a whole.

1.7 Value added tax

Where output tax is charged or input VAT is recoverable, the amounts of operating costs, purchase cost of fixed assets and operating income are stated net of VAT. The Agency is registered for VAT as part of The Scottish Government, which is responsible for recovering VAT from HM Revenue and Customs on behalf of the Agency.

1.8 Leases

As directed by the FReM, IAS 17 *Leases* and SIC15 *Operating Leases* apply. Where substantially all the risks and rewards of ownership of a leased property are borne by the entity, it is recorded as a non-current asset and a corresponding payable recorded in respect of the debt due to the lessor, with the interest element of the finance lease payment charged to the operating cost statement. Leases other than finance leases are treated as operating leases, and rentals payable in respect of operating leases will be charged to the operating cost statement on a straight line basis over the term of the lease.

1.9 Short term employee benefits

A liability and an expense is recognised for holiday days, holiday pay, and other short-term benefits when the employees render service that increases their entitlement to these benefits. As a result, an accrual has been made for holidays earned but not taken.

1.10 Police & Fire services

SPPA has statutory responsibility to act as Pension Scheme Manager on behalf of Scottish Ministers and has responsibility for processing pension payments for the police and fire fighters' pension schemes under a service level agreement with the Police Service of Scotland (PSoS) and Scottish Fire and Rescue Service (SFRS). Under its Agency status SPPA has access to and utilises Scottish Government designated bank accounts in order to carry out its functions, including that assigned in its 'Framework Agreement', for administering fire and police pensions.

Under current funding arrangements, police and fire pensions paid to members require to be reimbursed to SPPA by PSoS and SFRS. Amounts made to HMRC by SPPA relating to police and fire pensions obligations follow similar reimbursement arrangements. The account balances due at the year-end are included in SPPA's Statement of Financial Position. The temporary funding of these balances is included in the Statement of Cash Flows.

PSoS and SFRS account for pensions expenditure and the related funding from the Scottish Government in their financial statements and is, therefore, not included in SPPA's financial statements. Scottish Ministers determine the scope of SPPA's responsibilities in administering the police and fire fighters' schemes and these accounting arrangements have been agreed with them.

1.11 Going concern

The Agency receives its funding from the Scottish Government and its annual operating budget is approved and published each year, as part of the Scottish Government's budget, by the Scottish Parliament. Funding requirements have been agreed with the Scottish Government that give the Management Advisory Board reasonable expectation that the Agency will have adequate resources to continue in operational existence for the foreseeable future. For this reason, the going concern basis has been adopted in the preparation of the annual report and accounts.

2. Staff numbers, costs and pensions

Information is detailed in the Accountability Report paragraph 2.5.1.

3. Other administration costs	2018-19	2017-18
	£000	£000
3.1 General administration expenses		
IT Maintenance	1,913	1,897
Actuarial Services	1,641	2,148
Reform of GMP	438	322
Compensation payments	374	23
Postage	311	215
Professional & technical advisory services	294	163
Other minor running costs	169	177
Subscriptions	96	78
Training	84	125
Medical services	84	75
Travel & subsistence	45	45
	5,449	5,268
Compensation payments in 2018-19 include a provision of £367k for the reinstatement of an individual's membership of the National Health Service Pension Scheme (Scotland). Refer to note 11.		
3.2 Accommodation and support services		
Rates	124	121
Maintenance	77	89
Other accommodation costs	153	160
	354	370
3.3 Notional charges		
Services provided by the Scottish Government	125	137
Audit fee	153	149
	278	286
Other administration costs total	6,081	5,924

4. Write-off of intangible non-current assets	2018-19	2017-18
	£000	£000
Write-off of assets	0	1,621

The PS Pensions project to develop a new integrated pensions administration and payroll system was discontinued in February 2018 resulting in a net write-off of assets amounting to £1,621k in 2017-18. Software licenses, IT software and assets under development of £1,994k (refer to note 8) were offset by a work in progress creditor of £373k.

5. Operating income	2018-19	2017-18
	£000	£000
Pension sharing on divorce – charges to courts and solicitors	203	192
Pension calculation services for third parties	18	12
Other	6	10
	227	214

6. Other income

Other income in 2018-19 represents £700,000 from a supplier in settlement of a dispute (refer to para. 2.3.15).

7. Property, plant & equipment

For the year ended 31 March 2019	Land £000	Buildings £000	Information technology £000	Equipment £000	Furniture and fittings £000	Total £000
Cost or valuation						
At 1 April 2018	400	4,185	710	97	730	6,122
Additions	0	18	107	13	1	139
Disposals	0	0	0	0	0	0
Revaluations	10	126	0	0	(25)	111
At 31 March 2019	410	4,329	817	110	706	6,372
Depreciation						
At 1 April 2018	0	0	460	68	564	1,092
Charged in year	0	141	134	11	27	313
Disposals	0	0	0	0	0	0
Revaluations	0	3	0	0	0	3
At 31 March 2019	0	144	594	79	591	1,408
NBV at 31 March 2019	410	4,185	223	31	115	4,964
NBV at 31 March 2018	400	4,185	250	29	166	5,030
Equipment includes assets held under finance leases with a net book value of £11k (2017-18: £16k).						
For the year ended 31 March 2018	Land £000	Buildings £000	Information technology £000	Equipment £000	Furniture and fittings £000	Total £000
Cost or valuation						
At 1 April 2017	434	4,362	632	251	743	6,422
Additions	0	0	78	0	44	122
Disposals	0	0	0	(38)	0	(38)
Revaluations	(34)	(177)	0	(116)	(57)	(384)
At 31 March 2018	400	4,185	710	97	730	6,122
Depreciation						
At 1 April 2017	0	492	311	142	549	1,494
Charged in year	0	125	149	22	30	326
Disposals	0	0	0	(38)	0	(38)
Revaluations	0	(617)	0	(58)	(15)	(690)
At 31 March 2017	0	0	460	68	564	1,092
NBV at 31 March 2018	400	4,185	250	29	166	5,030
NBV at 31 March 2017	434	3,870	321	109	194	4,928

8. Intangible assets

For the year ended 31 March 2019	Software licences £000	IT software £000	Assets under development £000	Total £000
Cost or valuation				
At 1 April 2018	1,217	6,924	0	8,141
Additions	290	223	2,321	2,834
Disposals	0	0	0	0
Transfers	0	536	(536)	0
At 31 March 2019	1,507	7,683	1,785	10,975
Depreciation				
At 1 April 2018	374	6,707	0	7,081
Charged in year	491	146	0	637
Disposals	0	0	0	0
Transfers	0	0	0	0
At 31 March 2019	865	6,853	0	7,718
NBV at 31 March 2019	642	830	1,785	3,257
NBV at 31 March 2018	843	217	0	1,060
For the year ended 31 March 2018	Software licences £000	IT software £000	Assets under development £000	Total £000
Cost or valuation				
At 1 April 2017	1,769	6,758	1,308	9,835
Additions	336	170	0	506
Disposals	0	0	0	0
Write off of intangible non-current assets	(888)	(4)	(1308)	(2,200)
At 31 March 2018	1217	6,924	0	8,141
Depreciation				
At 1 April 2017	154	6,622	0	6,776
Charged in year	425	86	0	511
Disposals	0	0	0	0
Write off of intangible non-current assets	(205)	(1)	0	(206)
At 31 March 2018	374	6,707	0	7,081
NBV at 31 March 2018	843	217	0	1,060
NBV at 31 March 2017	1,615	136	1,308	3,059

9. Trade receivables and other current assets

9.1 Amounts falling due within one year	2018-19 £000	2017-18 £000
Trade receivables	7	13
Prepayments and accrued income	180	1,251
Cash in transit	64	17
Other receivables*	13,328	18,028
Total receivable within one year	13,579	19,309
9.2 Intra-government balances		
Balance with bodies external to government	13,579	19,309

*Other receivables relate to the payment of pensions on behalf of Scottish police and fire services.

10. Trade payables and other current liabilities

10.1 Amounts falling due within one year	2018-19 £000	2017-18 £000
Trade payables	664	315
Accruals and deferred income	628	512
Taxation and social security*	7,413	7,284
Finance lease	5	5
Total due within one year	8,710	8,116

10.2 Intra-government balances

Balances with other central government bodies**	441	366
Balances with bodies external to government	8,269	7,750
Total	8,710	8,116

10.3 Amounts falling due after more than one year

Finance lease	5	11
Total due after one year	5	11

10.4 Intra-government balances

Balances with bodies external to government	5	11
Total	5	11

*Taxation and social security liabilities relate to the payment of pensions on behalf of Scottish police and fire services.

**Includes accrued employee benefits.

11. Provisions for liabilities and charges

	2018-19 £000	2017-18 £000
Provision at 31 March	367	0

The provision at 31 March 2019 is for the reinstatement of an individual's membership of the National Health Service Pension Scheme (Scotland). In March 2013, £367,000 was transferred out of the National Health Scheme at the request of a member. Subsequently the member had difficulty in managing that transfer with the receiving scheme. The member contends that SPPA failed to carry out sufficient due diligence on the transfer and in 2018-19 appealed to the Pensions Ombudsman.

12. Capital commitments

Capital commitments at 31 March 2019 not otherwise included in these accounts.

	2018-19 £000	2017-18 £000
Contracted for at 31 March	2,947	0

The capital commitments of £2.947 million as at 31 March 2019 relate to the enhancement of the existing pension administration and payroll system.

13. Commitments under leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

13.1 Obligations under operating leases comprise	2018-19 £000	2017-18 £000
Office Equipment		
Not later than one year	4	4
Later than one year and not later than five years	0	0
	4	4
13.2 Obligations under finance leases comprise		
Office Equipment		
Not later than one year	6	6
Later than one year and not later than five years	5	11
Less interest element	(1)	(1)
	10	16

14. Related-party transactions

The SPPA is a Scottish Government agency, which is therefore regarded as a related party. During the year, the SPPA has had a number of material transactions with the Scottish Government.

During the year, none of the Board Members, key managerial staff or other related parties has undertaken any material transactions with the SPPA.

15. Contingent liabilities

There were no contingent liabilities as at 31 March 2019.

16. Important events occurring after the year end

No material event has occurred after the year end which had a bearing on the accounts.



SCOTTISH PUBLIC PENSIONS AGENCY

DIRECTION BY THE SCOTTISH MINISTERS

in accordance with section 19(4) of the Public Finance and Accountability (Scotland) Act 2000

- 1. The statement of accounts for the financial year ended 31 March 2006 and subsequent years shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the year for which the statement of accounts are prepared.**
- 2. The accounts shall be prepared so as to give a true and fair view of the income and expenditure, recognised gains and losses, and cash flows for the financial year, and of the state of affairs as at the end of the financial year.**
- 3. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 29 March 2001 is hereby revoked.**

A blue ink signature in cursive script, appearing to read 'Alyson Shattock'.

Signed by the authority of the Scottish Ministers

17 January 2006